AR92

Inmet

Base metal mining

Inmet Mining Corporation | 2007 Annual Review

Inmet Mining Corporation is a Canadian-based global mining company that produces copper, zinc and gold. We have operations and development projects in Turkey, Finland, Canada, Papua New Guinea, Spain and Panama. We are also actively exploring and seeking out other growth opportunities around the world to ensure our future success.

Inmet is headquartered in Toronto and is listed on the Toronto Stock Exchange. We have approximately 3,200 employees worldwide.

Our Operations

Çayeli

Underground copper and zinc mine that has been operating for 14 years.

40% of 2007 revenue

Revenue by metal: **60%** copper
40% zinc

Pyhäsalmi

Underground copper and zinc mine that we acquired in 2002.

25% of 2007 revenue

Revenue by metal: **45%** copper
55% zinc

Ok Tedi

One of the world's largest open pit copper and gold mines.

25% of 2007 revenue

Revenue by metal: **80%** copper
20% gold

Troilus

Open pit gold mine that produces a high gold, low copper-containing copper concentrate and gold doré.

10% of 2007 revenue

Revenue by metal: **80%** gold
20% copper

Development and pre-development properties

Las Cruces

A high grade deposit which will produce copper cathode starting in 2008.

Cerattepe

A small but high grade copper ore body near our Çayeli mine.

Petaquilla

A large, long life copper, gold and molybdenum resource that we expect to produce copper concentrate.

Where to find it

About our 2007 Annual Review

This year we're taking a new step in our disclosure by combining our annual information form (AIF), management's discussion and analysis (MD&A) and financial statements and notes into a single annual review.

This is a practical and effective approach because:

- It gives you important context
  It includes more information about the history and development of our company than in our past annual reports. This will give you a better understanding of our business and our future prospects, and hopefully lead to a more informed investment decision.
- It reduces duplication
  An annual information form is normally written in legalese and might be overlooked by many investors. But it includes important information — much of the information that the Canadian Institute of Chartered Accountants (CICA) recommends companies include in their MD&A as well as information prescribed by the Canadian Securities Administrators. By combining the two documents, we are meeting the requirements of regulators, following the spirit of the CICA guidelines, and saving paper, time and money. That's good for us, good for our shareholders, and good for the planet.

We hope you find this year's annual review interesting and useful.

About plain language

We write all of our disclosure in plain language. This approach is important to us because we believe that by communicating clearly we can give you a better sense of who we are, how we think, and what our prospects are. And that leads to better investment decisions.

Section 1

Letter to shareholders

2007 was another good year for Inmet and for our shareholders.

Our strong operating performance, together with continuing high metal prices, resulted in earnings per share of $8.65, which was consistent with last year. The past several years of record earnings has resulted in a solid balance sheet with cash of $840 million and a modest level of debt of $234 million as at December 31, 2007. We are very pleased with our strong operating and financial base as it positions us well for the future and provides a solid foundation for the successful execution of our growth strategy.

RICHARD ROSS

Chairman and Chief Executive Officer

Our share performance in 2007 was also very good, albeit very volatile, both in absolute and relative terms. Our shares traded as low as $50 early in the year, peaked at $112 in October and closed the year at $81. In 2006, our share price traded between $29 and $68. We fully expect the volatility to continue in 2008 as the market's view on the longevity of the current bull market for metals evolves.

Our share price has consistently outperformed over the long term, creating $2.3 billion of value over the recent five-year period compared to the Index.

While our share performance largely paralleled movements in the overall metals markets, we performed better than many of our peers in 2007 and outperformed the S&P/TSX Diversified Metals and Mining Index. More importantly, our share price has consistently outperformed over the long term, creating $2.3 billion of value over the recent five-year period compared to the Index. Going forward, we strive to continue to create value for our shareholders through relative outperformance of our shares over the long term.

Looking ahead into 2008 and beyond

2008 will be a very important year for Inmet and our shareholders as we carry out our growth strategy.

Our near term objective is to increase our annual copper production from 80,000 tonnes today to 150,000 tonnes by the middle of 2009. We are also evaluating the opportunity for further growth through the potential development of Petaquilla and other growth projects.

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There are a number of objectives we are focusing on to ensure the success of our strategy:

- Continue to ensure a strong and *stable operating base*
- Complete the construction of *Las Cruces* and *Cerattepe*
- Make a decision on the development of *Petaquilla* and/or acquire *other growth opportunities*
- Increase our *community engagement* efforts
- Continue to improve the *health and safety* of our employees and contractors through advances in our work practices.

Stable operating base

At Çayeli, the development of the deeper parts of the mine and the implementation of our continuous improvement measures have resulted in the best operating performance in the mine's history, mining nearly 1.1 million tonnes in 2007. This gives us confidence that we can achieve our goal of 1.2 million tonnes of ore throughput by 2009.

Pyhäsalmi has established a history of reliable production since we acquired this mine in 2002. With the ongoing focus on operational efficiencies, we expect its stable performance to continue in the years ahead.

At Ok Tedi, high levels of fluorine in the ore resulted in lower copper production in 2007. We expect Ok Tedi to return to a more consistent level of copper production in 2008. That result, together with the substantial increase in budgeted gold production in 2008 and onward, should result in a strong economic contribution from Ok Tedi in 2008 and beyond.

Finally, while our Troilus gold mine in Quebec is approaching the end of its life, we expect good operating performance until closure at the end of 2009, particularly if gold prices continue at record levels.

Las Cruces and Cerattepe

We expect Las Cruces to begin copper cathode production in the fourth quarter of 2008. Although we experienced a six-month delay in our construction schedule, we look forward to concluding the development of this state-of-the-art mine. Our current plan is to start commissioning of the metallurgical plant in the fall of 2008 with the goal of ramping up to an annual production rate of 72,000 tonnes of copper cathode (Inmet's share is 50,000) in

Our current plan at Las Cruces is to start commissioning of the metallurgical plant in the fall of 2008 with the goal of ramping up to an annual production rate of 72,000 tonnes of copper cathode (Inmet's share is 50,000) in 2009.

If a decision is made to proceed with construction, Petaquilla could be producing approximately 200,000 tonnes of copper (Inmet's share is about 100,000 tonnes) within the next five years.

2009. Contractor performance, specifically the availability of skilled trades, is the key risk to achieving this goal. Since mine development has been on time, we expect to be able to sell the high grade ore from the top of the ore body directly to smelters and start generating revenue in May 2008.

At Cerattepe, construction is proceeding well but it is still subject to legal proceedings initiated by a local non-government organization (NGO). We expect to complete construction by June 2009 and have forecasted a rate of production of 20,000 tonnes of copper per year. Continued opposition by a NGO and the timely receipt of construction permits are the major risks in meeting our targeted production date.

Petaquilla and other growth opportunities

The preliminary capital expenditure estimate arising from the Petaquilla front-end engineering and design interim study resulted in a significant increase in the project's capital cost estimate, which now stands at $3.5 billion. This increase is a result of changes to the project's scope arising from the detailed engineering work completed to date and the significant escalation in construction costs that is being experienced worldwide. Inmet and its partners are evaluating the project in light of the new capital and operating cost estimates with a view to making a decision on the merits and risks of proceeding.

If a decision is made to proceed with construction, Petaquilla could be producing approximately 200,000 tonnes of copper (Inmet's share is about 100,000 tonnes) within the next five years. There are, of course, many risks to achieving this production goal, including issues relating to relations with local communities, permitting, availability of equipment and sufficient project management resources.

With respect to other growth opportunities, there are a number of factors that can affect the execution of our strategy:

- The substantial increase in capital costs at Petaquilla is something that many development projects have experienced in the past several years. This not only reflects the higher costs of construction materials, but also the increases in capital and operating costs to address community development needs and ensure a higher level of environmental performance. Given this ever-escalating cost environment, the reliability and size of capital estimates pose a substantial challenge for the industry.
- Many projects have experienced significant delays because of permitting and engagement from NGOs and other interested parties. We need to consider the likelihood of these delays in assessing the economics of any project even though they are difficult to predict.
- Finally, one of the biggest challenges in the mining industry is attracting and retaining qualified and experienced employees and securing sufficient engineering expertise. The industry recognizes it will be faced with a growing shortage of skilled employees at all levels in the coming years and that this will have an impact on all future development projects in one way or another.

None of these challenges is unique to Inmet but are issues facing the entire mining industry. The corollary of this is that higher metal prices will likely be required in the future to justify making investment decisions to bring on new copper production. This of course bodes very well for companies that have a strong operating base, like Inmet.

The health and safety of our employees and contractors continues to be our top priority.

Community engagement

The success of our growth plans and the stability of our operating base is affected by our relationships with the communities who live and work around our mine sites. We believe this is so critical to our future success that we have developed a separate corporate objective that outlines our commitment to our communities in the future and how we will measure our performance in fulfilling that commitment.

Health and safety

The health and safety of our employees and contractors continues to be our top priority. Unfortunately, a contractor died in an accident at our Çayeli mine in June of last year. We deeply regret this fatality and will continue to work diligently in this area in 2008.

Our employees and directors

I would like to extend a personal thank you to all our employees for their passion for making Inmet the company it is today and what it will become in the future.

I would also like to thank Warren Holmes, who retired from our board of directors this year, for his contribution over the years. We welcomed Doug Whitehead to the board in November and look forward to his guidance and input as Inmet continues to grow.

Richard Ross
Chairman and Chief Executive Officer

Financial and operating highlights

Financial highlights

(millions, except per share amounts)	2007	2006	2005	Change (2006 to 2007)
Sales				
Gross sales	$ 1,104	$ 1,088	$ 709	+ 1%
Net income				
Net income	$ 418	$ 421	$ 142	- 1%
Net income per share	$ 8.65	$ 8.73	$ 3.22	- 1%
Cash flow				
Cash flow provided by operating activities	$ 427	$ 438	$ 168	- 3%
Cash flow provided by operating activities per share[1]	$ 8.85	$ 9.09	$ 3.81	- 3%

Financial condition

	Dec 31 2007	Dec 31 2006	Dec 31 2005	Change (2006 to 2007)
Current ratio	5.6 to 1	5.1 to 1	4.0 to 1	+ 10%
Gross debt to total equity	18%	10%	5%	+ 8%
Net working capital balance (millions)	$ 855	$ 666	$ 301	+ 28%
Cash balance (millions)	$ 841	$ 640	$ 252	+ 31%
Shareholders' equity (millions)	$ 1,392	$ 1,073	$ 624	+ 30%

Operating highlights

	2008 Objective[4]	2007	2006	2005	Change (2006 to 2007)
Production[2]					
Copper (tonnes)	*104,000*	79,300	81,300	80,600	- 2%
Zinc (tonnes)	*79,000*	85,100	74,400	82,800	+ 14%
Gold (ounces)	*285,000*	223,300	246,900	263,000	- 10%
Cash costs[3]					
Copper (US $ per pound)	*$ 0.51*	$ 0.20	$ 0.20	$ 0.51	–
Gold (US $ per ounce)	*$ 243*	$ 421	$ 365	$ 324	+ 15%

1. Calculated as cash flow provided by operating activities divided by average shares outstanding for the respective period.
2. Inmet's share.
3. Cash cost per pound of copper and cash cost per ounce of gold are non-GAAP measures – see *Supplementary information* on pages 92–93.
4. See statement *about Forward-looking information* on page 8.

Section 2

Annual information form

Inmet Mining Corporation
March 10, 2008

Where to find it

This AIF contains important information that can help you make an informed decision about Inmet Mining Corporation. It describes our business, our mineral reserves and resources, our operations and prospects, risks and other factors that affect us.

About this document

Throughout this AIF, the terms *we, us, our* and *Inmet* mean Inmet Mining Corporation and its subsidiaries and joint ventures. *Inmet Mining* means Inmet Mining Corporation only. All information in this AIF is as of March 10, 2008 unless otherwise indicated. All currency amounts are in Canadian dollars unless otherwise indicated.

Our principal subsidiaries and joint ventures include:

	Jurisdiction	Ownership (%)
Çayeli Bakir Isletmeleri A.S. (Çayeli)	Turkey	100
Pyhäsalmi Mine Oy (Pyhäsalmi)	Finland	100
Troilus (division of Inmet Mining)	Canada	100
Ok Tedi Mining Limited (Ok Tedi)	Papua New Guinea	18
Cobre Las Cruces (Las Cruces)	Spain	70
Artvin Bakir Madencilik Isletmeleri A.S. (Cerattepe)	Turkey	100
Minera Petaquilla S.A. (Petaquilla)	Panama	48

Forward-looking information

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This AIF contains statements about our business, results of operation and future financial condition.

These statements are "forward-looking" because we have used what we know and expect today to make a statement about the future. Forward-looking statements usually include words like *may, expect, anticipate, believe* or other similar words. We believe the expectations reflected in these forward-looking statements are reasonable. Actual events and results could be substantially different, however, because of the risks and uncertainties associated with our business or events that happen after the date of this AIF (see *Risk factors in our business* beginning on page 39).

You should not place undue reliance on forward-looking statements. As a general policy, we do not update forward-looking statements except if there is an offering document or where securities legislation requires us to do so.

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Other documents you can ask for

Additional financial information is available in our financial statements and management's discussion and analysis (MD&A). You can ask us for our most recent MD&A, annual and interim financial statements and management proxy circular at no charge. The management proxy circular contains information about the nominated directors, compensation of our directors and executive officers, loans to our directors and executive officers, principal holders of our securities and securities authorized for issuance under equity compensation plans.

To request a copy, write to:

Vice-President,
General Counsel and Secretary
Inmet Mining Corporation
330 Bay Street
Suite 1000
Toronto, Ontario
Canada M5H 2S8

You can also call us at
+ 1.416.361.6400,
or send a fax to
+ 1.416.368.4692.

Accessing documents online

This annual review (AIF, MD&A, financial statements) our management proxy circular and other documents are also available on our website at www.inmetmining.com or on SEDAR at www.sedar.com.

Our strategy

Our strategy is to grow responsibly as a base metal mining company, providing superior returns to shareholders. This simple yet comprehensive strategy has delivered excellent results for our shareholders.

The choices we make in every aspect of our business — from human resource requirements to allocation of capital — are all framed by our desire to grow responsibly. Responsible growth means finding the right balance between financial returns for our shareholders, and the interests of employees, communities and the environment.

Three key components

Our strategy is supported by three goals. These guide our planning, and help us set objectives and measure our success:

1. Long-term responsible growth

We are focused on increasing our copper reserves in a disciplined way. We plan to increase our reserves by moving ahead with our existing development projects, increasing our exploration activities around the world and making new acquisitions as opportunities arise. At the same time, we manage our balance sheet conservatively to make sure we can finance our growth regardless of market conditions.

Over the last five years, our acquisitions have increased copper reserves by 1.3 million tonnes or 140 percent.

We are committed to continually improving our performance as a responsible corporate citizen while creating shareholder value. Having safe workplaces, co-operating with people in the communities where we operate and adhering to high environmental standards are all important to our future.

In 2007, we improved our safety statistics and implemented more components of the Mining Association of Canada's *Towards Sustainable Mining* (TSM) performance indicators at our operations.

2. Superior returns

Providing superior returns to our shareholders is a key part of our strategy. We focus on operating effectively, assessing and managing risk to make sure we meet or exceed our production targets, controlling our costs and developing our human resources. These activities strengthen our long-term returns relative to our peers.

Over the last five years, our share price has outperformed the S&P/TSX Diversified Metals and Mining Index by a cumulative 131 percent.

3. Base metal mining

Our business model focuses on base metals, primarily copper, which we believe is a very attractive business in light of the significant growth in demand for copper. As populations and industries grow, so does the demand for copper. The pace of industrialization in China and India and other countries like Brazil, Russia and Turkey, is expected to keep global demand for copper and other base metals high for at least the next decade.

The supply of new copper production is expected to come mainly from large deposits. Developing them successfully will require significant investment and resources to deal with lengthy permitting and challenging community engagement processes. This could limit the rate of growth in copper production to meet rising demand. Although this would bode very well for the price of copper in future, it also presents challenges for our growth as the competition for new growth opportunities is expected to increase as fewer companies are chasing fewer and more expensive opportunities.

A history of growth

2002 holdings

- **Çayeli** — 55 percent
- **Pyhäsalmi** — 100 percent
- **Troilus** — 100 percent
- **Ok Tedi** — 18 percent
- **Antamina** — 3.3 percent net proceeds interest
- **Izok** — 100 percent
- **Petaquilla** — 48 percent

2003

- Sell Antamina net proceeds interest
- Doubled gold reserves at Troilus

2004

- Increase equity interest in Çayeli to 100 percent
- Acquire 100 percent interest in Cerattepe
- Expand Troilus mill, increasing mill capacity by 15 percent

Growth in our reserves and resources since we implemented our strategy

In the last five years we have increased our copper reserves by 1.5 million tonnes, zinc reserves by 0.4 million tonnes and gold reserves by 700,000 ounces. The following discussion provides more detail on significant events that happened from 2005 to 2007.

Key events in the past three years

Las Cruces

Acquisition — In August 2005, we bought a 70 percent indirect interest in Cobre Las Cruces, which owns the Las Cruces copper development project located in Southern Spain, 20 kilometres northwest of Seville. As part of the purchase, we issued 5.6 million common shares to MK Resources, LLC, a wholly-owned subsidiary of Leucadia National Corporation. Leucadia retains an indirect 30 percent participating interest in Las Cruces. In the fourth quarter of 2005, we completed a US $240 million credit facility and €69 million bridge facility for development of the project. The first drawdown was made under the credit facility during the second quarter of 2006.

Increased capacity — In May 2006, we announced an increase in the planned production capacity of the Las Cruces project from 66,000 tonnes per year to 72,000 tonnes per year. We also updated our capital and operating costs for the project following the completion of basic engineering in April.

Revised capital cost estimate — In May 2007, with approximately 70 percent of the detailed engineering complete, we began a definitive cost estimate of the Las Cruces project. This resulted in a 22 percent increase in forecasted capital costs, from €380 million to €463 million. The revised cost covers escalation and growth in several areas and includes a €40 million contingency allowance.

Plant construction delay — On October 30, 2007, we announced that completion of the hydrometallurgical process plant and initial production of copper cathode would be delayed until the fourth quarter of 2008. As a result of the anticipated delay, we expect that our capital cost estimate of €463 million will be increased by €4 million per month for owners' costs and construction management costs from April 2008 until production of copper cathode begins. To manage the impact of this delay, Las Cruces plans to selectively mine and crush approximately 130,000 tonnes of high grade chalcocite ore and sell it as direct feed to copper smelters. This should result in the production of approximately 18,000 tonnes of copper.

Çayeli

Shaft extension — In 2007, Çayeli successfully expanded the infrastructure to the lower areas of the mine. This included extension of the shaft, development of the ramp and ore handling systems and associated services.

Ok Tedi

Community Mine Continuation Agreements concluded — On June 29, 2007, Ok Tedi signed a memorandum of agreement with almost all of its local communities concluding the scheduled mid-term review under the Community Mine Continuation Agreements process. Inmet's share of the payments under the new agreement is US $3 million per year for the next six years, compared to approximately US $1 million per year under the previous agreement, which was first negotiated in 2002.

2005

- Acquire 70 percent interest in Las Cruces
- Implement dividend policy

2006

- Increase Las Cruces production capacity by 9 percent
- Sell Izok to Wolfden Resources

2007

- Start Petaquilla work program
- Sell interest in Wolfden Resources
- Conclude Ok Tedi Community Mine Continuation Agreements
- Complete shaft extension at Çayeli

Petaquilla

Project cost update — In January 2007, we announced, jointly with Petaquilla Minerals Ltd., Petaquilla Copper Ltd. and Teck Cominco Limited, the results of a cost update to the 1998 feasibility study completed by AMEC Americas Limited for the Petaquilla project.

Work program — On May 7, 2007, we announced, together with Petaquilla Minerals Ltd., Petaquilla Copper Ltd. and Teck Cominco Limited, the approval of a comprehensive work program to facilitate the development of the project, including the completion of a front-end engineering and design (FEED) study for the project.

Revised capital and operating cost estimate – In February 2008, jointly with Petaquilla Copper Ltd. and Teck Cominco Limited, we announced the revised capital cost estimate to develop the Petaquilla project. The interim FEED study indicated a 106 percent increase in forecasted capital costs, from US $1.7 billion to US $3.5 billion (including a contingency of US $0.5 billion but not including working capital and escalation). The costs increased because of scope changes, including enhancements in erosion control, water management and other environmental protection measures, and increases in equipment and construction costs that have been affecting projects worldwide.

Cash costs, including operating and smelter processing costs net of by-product credits, in years 1 to 10 of the project are estimated to average US $0.85 per pound of copper produced.

A project review team is currently studying opportunities to reduce the project's estimated capital costs. Petaquilla's shareholders will evaluate their respective options and are expected to make a decision regarding the project before the end of the first quarter of 2008.

Sale of Izok property

On March 31, 2006, we sold our interest in the Izok development property in Nunavut, Canada to Wolfden Resources Inc. As consideration for the sale, Wolfden issued 13.5 million common shares to Inmet, representing approximately 18 percent of its issued and outstanding common shares following the completion of the transaction. On August 18, 2006, Wolfden completed an arrangement under the *Business Corporations Act* (Ontario) involving a new company, Premier Gold Mines Limited. Under the arrangement, in exchange for each Wolfden common share, shareholders received one new common share of Wolfden and 0.70 of a common share of Premier. As a result, we owned 13.5 million common shares of Wolfden and 9.5 million common shares of Premier.

In May 2007, we tendered our shares of Wolfden to Zinifex Limited's offer to acquire all of the outstanding common shares of Wolfden at a cash price of $3.81 per share. We realized gross proceeds of $51 million in disposing of our Wolfden shares, and recorded a gain of $12 million.

Dividend policy

In November 2005, Inmet Mining's board of directors adopted a dividend policy that pays annual dividends of $0.20 per share to common shareholders. Under the policy, dividends of $0.10 per common share are paid on a semi-annual basis on June 15 and December 15 of each year.

Redemption of convertible debentures

In January 2005, Inmet Mining redeemed $64,052,000 aggregate principal amount convertible subordinated debentures due September 30, 2007. The debentures were redeemed for cash at par, together with accrued and unpaid interest.

Our objectives

Our objectives help us and our board measure the success of our strategy. These objectives are by no means all-encompassing. When our board evaluates Inmet's performance, it looks beyond a basic scorecard to see if the company has succeeded in building long-term value for shareholders.

The following discussion is an overview of our 2007 performance compared to our original targets, and describes our goals for 2008.

1. Superior returns

One of our longer-term goals is to provide returns better than our peers. Because long-term share performance is a key part of our overall strategy, we assess our results over a five year period.

Continue to improve Inmet's share price relative to our peers over the long term

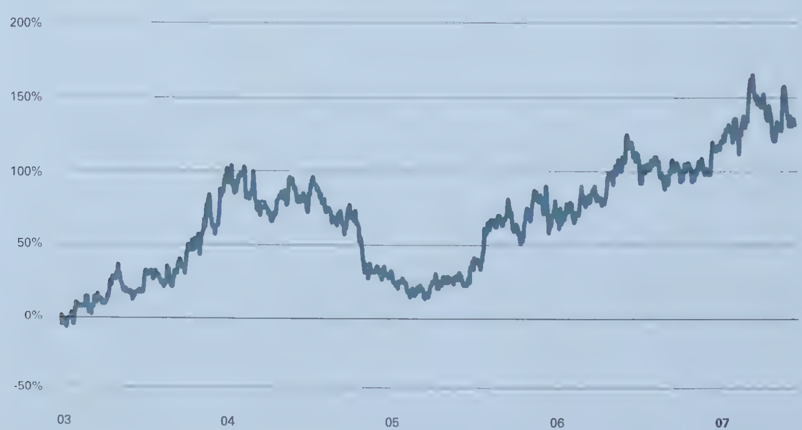
Key performance indicator

Outperform the S&P/TSX Diversified Metals and Mining Index (our peer group) over the long term.

Results

- Our share performance in 2007 was strong, both in absolute and relative terms. We also directly outperformed many of our peers.
- For the past five years (ending December 31, 2007):
  - We have outperformed our peer group by a cumulative 131 percent.
  - Our share price has increased over 13 times — a compound annual growth rate of 68 percent.

Inmet Share Performance Relative to the S&P/TSX Diversified Metals & Mining Index
(relative change % – January 1, 2003 to December 31, 2007)



2. Growth

Growth in base metal mining is a core element of our corporate strategy. We believe we have achieved our growth objectives over the past several years and continue to strive for growth to enhance our ability to deliver superior returns.

Grow through the acquisition of production, development of a property or successful exploration

2007 key performance indicators

- Complete the construction of Las Cruces
- Advance work on the development of Petaquilla
- Expand our activities related to exploring for world-class copper opportunities

2007 results

- Advancing Las Cruces was our primary focus in 2007. By the end of the year, we had completed 99 percent of the detailed engineering and 51 percent of the construction. Throughout the year we experienced delays with engineering drawings and contractor difficulties. Capital costs increased because of escalation and growth in several areas. As a result, we have revised the project schedule and now expect Las Cruces to begin producing copper cathode in the fourth quarter of 2008. We plan to manage the impact of this delay by shipping high grade ore directly to smelters beginning in May of 2008.
- We took the necessary steps in 2007 to give us the information we need to make a decision about developing Petaquilla. We expect to make this decision at the end of the first quarter of 2008. Front-end engineering and design, permitting and community engagement, marketing and financing activities are all already underway.

2008 key performance indicators

- Complete the construction at Las Cruces and successfully begin production
- Advance construction at Cerattepe so production can begin in 2009
- Make a decision about the development of Petaquilla
- Continue to evaluate our next growth opportunity

Our objectives (cont'd)

3. Maximize the value of our existing assets

The focus of this objective is to maximize the value of our existing operations through productivity improvements, cost reductions, mitigation of risks and ultimately the maximization of profitability. In certain circumstances this could include the sale of assets if we believe that this would be more likely to generate maximum value for our shareholders. Our progress in 2007 with respect to three indicators: productivity, costs and risk management, is summarized below.

3.1 Meet production targets and continuously improve productivity

2007 key performance indicators and results, and 2008 key performance indicators

Meet the following production targets

	2007 target	2007 results	*2008 target*
Copper	83,000 tonnes	79,000 tonnes	*104,000 tonnes*
Zinc	87,000 tonnes	85,000 tonnes	*79,000 tonnes*
Gold	249,000 ounces	223,000 ounces	*285,000 ounces*

Meet the following productivity targets

	2007 target	2007 results	*2008 target*
(tonnes of ore milled per day)			
Çayeli	2,900	2,900	*3,000*
Pyhäsalmi	3,750	3,770	*3,750*
Troilus	18,400	16,500	*18,100*
Ok Tedi (100%)	76,000	71,000	*69,000*

2007 results

Production results were slightly below target mainly because productivity at Ok Tedi and Troilus was lower than expected. Troilus had difficulties with its ball mill and Ok Tedi had high levels of fluorine ore, which reduced mill throughput.

2008 target

We have raised our production targets for copper because we expect production to begin at Las Cruces in 2008. Gold production targets are higher because ore grades at Troilus and Ok Tedi should be higher, while zinc targets are lower because zinc grades should be lower. We also expect Çayeli to continue to improve its productivity and Troilus to have fewer operational challenges in 2008.

3.2 Control costs through continuous improvement programs and cost monitoring

2007 key performance indicators and results, and 2008 key performance indicators

	2007 target	2007 results	*2008 target*
Cost per tonne of ore milled (C $)			
Çayeli	$ 74	$ 83	*$ 71*
Pyhäsalmi	$ 33	$ 36	*$ 36*
Troilus	$ 11	$ 13	*$ 12*
Ok Tedi	$ 15	$ 18	*$ 18*
Las Cruces	$ –	$ –	*$ 172*
Cash cost per pound of copper (US $)	$ (0.01)	$ 0.20	*$ 0.51*
Cash cost per ounce of gold (US $)	$ 348	$ 421	*$ 243*

Cost per tonne of ore milled is described on an operational basis in the financial review by operation included in our MD&A. Cash cost per pound of copper and cash cost per ounce of gold include direct production costs plus smelter processing charges and freight less revenue from the sale of by-product metals. These are non-gaap measures. There is no standard method for calculating them and therefore is not a reliable way to compare us to other companies. It can, however, help you understand how our production costs have changed from year to year compared to our targets, and the impact this has on our profitability and cash flows. A reconciliation of the 2007 non-gaap measures to our gaap measures is found on pages 92-93 in our MD&A under the title *Supplementary information, Cash costs* and is incorporated by reference into this AIF.

2007 results

Costs were higher than our targets mainly because labour costs at Çayeli and compensation costs at Ok Tedi were higher in 2007 than we expected. Foreign exchange also increased costs.

2008 target

We expect higher productivity at Çayeli and Troilus will help reduce our costs. We did not include an increase in the cost of consumables in our 2008 costs.

3.3 Effectively assess and manage risk

2007 key performance indicators

- Continue to implement enterprise risk management (ERM) policies and standards at our operations
- Develop documented risk management plans at our operations
- Continue to streamline and improve financial reporting
- Test and report on the effectiveness of our controls on financial reporting

2007 results

- We have integrated risk management at our operations through the implementation of ERM policies and documentation of risk management plans.
- Although we were not required to certify the operating effectiveness of our internal controls over financial reporting for December 2007, we had completed our testing and evaluation and were in a position to do so.

2008 target

We do not have a corporate objective specifically for risk management because our risk management systems have become a part of the way we do business, and are implicit in our strategy.

Our objectives (cont'd)

4. Continue to make our operations safe places to work

We are committed to continually improving our performance as a responsible corporate citizen while creating shareholder value. Having safe workplaces, co-operating with people in the communities where we operate and adhering to high environmental standards are all important to our future.

We have additional objectives related to sustainability — see our 2007 sustainability report online at www.inmetmining.com.

Improve the safety and health performance of our operations and construction projects

2007 key performance indicators

- Lower our lost-time injury frequency rate
- Focus on contractor safety at Las Cruces
- Improve our performance against the Mining Association of Canada's *Towards Sustainable Mining* (TSM) performance indicators

2007 results

- While Pyhäsalmi and Troilus had excellent safety performance this year, our overall performance was overshadowed by a contractor fatality at Çayeli. Çayeli commissioned an independent investigation to find out what caused the incident and recommended measures to minimize the possibility of this kind of accident in the future. These findings have led to a modification to the way we will manage hazards that can have severe consequences to employee or contractor safety. We are developing high consequence protocols for eight hazard areas and these will be rolled out across Inmet starting in 2008.
- Overall, our lost-time injury frequency increased seven percent from 2006. This is primarily the result of 16 contractor injuries at Las Cruces, related to construction activities. Our total injury frequency and disabling injury frequencies decreased 11 percent and 17 percent, respectively.
- Pyhäsalmi's safety performance, as measured by lost-time injury frequency, was the best in their 47 year history.

2008 key performance indicators

We have renewed our five-year strategic objectives. As in the past, our primary focus continues to be improving our operational safety, environmental and community affairs (SECA) performance, but we have also shifted more focus to a corporate responsibility footing and our strategic and 2008 objectives reflect this. In 2008 we intend to:

- Implement higher safety and health standards (high consequence protocols) at all of our operations
- Improve operational performance by implementing SECA standards
- Commit to open and transparent reporting by improving our external sustainability/corporate social responsibility reporting and ultimately moving to a G3 Global Reporting Initiative framework
- Expand our participation in global community organizations

Mining and development

Global business

Inmet operates in countries as diverse as Canada and Turkey, and Finland and Papua New Guinea.

Çayeli Turkey	**Pyhäsalmi** Finland	**Troilus** Canada	**Ok Tedi** Papua New Guinea	**Las Cruces** Spain	**Cerattepe** Turkey	**Petaquilla** Panama
Ownership 100%	Ownership 100%	Ownership 100%	Ownership 18%	Ownership 70%	Ownership 100%	Ownership 48%
Primary metal copper	Primary metal copper	Primary metal gold	Primary metal copper	Primary metal copper	Primary metal copper	Primary metal copper
Secondary metal zinc	Secondary metal zinc	Secondary metal copper	Secondary metal gold	Secondary metal —	Secondary metal —	Secondary metal gold
Mine type underground	Mine type underground	Mine type open pit	Mine type open pit	Mine type open pit	Mine type underground	Mine type open pit
Mine life 2016	Mine life 2018	Mine life 2009	Mine life 2013	Mine life 2008-2022	Mine life 2009-2014	Mine life 23 years
p.18	p.20	p.22	p.24	p.27	p.30	p.32

Çayeli

Çayeli is an underground copper and zinc mine located on the Black Sea coast of northeastern Turkey

Location	Turkey	Average reserve grades	copper — 3.5% zinc — 5.4%
Ownership	100%	Infrastructure	close to roads and 18 kilometres from the port at Rize
Type of mine	underground	Employees	465
Primary metal	copper	Contractors	89
Secondary metal	zinc		
End product	copper and zinc concentrate		
Expected mine life	2016		

Business structure

Çayeli Bakir Isletmeleri A.S. is a wholly-owned subsidiary of Inmet Mining and is incorporated under the laws of the Republic of Turkey. Its main asset is the Çayeli copper and zinc mine.

Eti Holding A.S., which is wholly-owned by the Government of Turkey, holds the operating licence for the property and has leased it to Çayeli. The lease expires on July 29, 2044. Eti is entitled to a royalty based on seven percent of Çayeli's net income.

About the property

The Çayeli mine is located in the province of Rize near the Black Sea coast of northeastern Turkey:

- the plant site is at about 100 metres above sea level, on the western flood plain of the Büyükdere River
- it sits directly across from the town of Madenli, about seven kilometres from the Black Sea coast
- the town of Çayeli is located where the Büyükdere River enters the Black Sea, about 18 kilometres east of the city of Rize
- its ore body covers an area of 203.1 hectares.

Physical characteristics of the deposit

Çayeli is a Cretaceous age volcanogenic massive sulphide deposit that:

- has a known strike length of over 600 metres
- extends to a depth of at least 600 metres
- varies in thickness from a few metres to 80 metres, averaging about 20 metres.

The average dip is 65 degrees to the north, northwest and the deposit is open down dip and to the north.

The deposit is at the contact between altered footwall felsic volcanic flows and pyroclastic and hanging wall mafic volcanics. It consists of massive and stockwork sulphides. The mineralization includes pyrite, chalcopyrite and sphalerite and smaller amounts of galena and tetrahedrite.

Geology

The massive sulphide ore is classified into:

- Yellow Ore, which is zinc poor
- Black Ore, which is zinc rich
- Clastic Ore, which contains copper, zinc and precious metals. In this ore, the sphalerite contains inter-growths and inclusions of chalcopyrite and requires batch processing through the mill.

Stockwork ore containing pyrite and chalcopyrite in veins occurs stratigraphically below the massive sulphides.

Mining method

Çayeli's mine design is based on underground bulk mining methods with the use of delayed backfill to extract ore in a sequential manner. The primary mining method is retreat transverse and longitudinal long hole stoping with paste fill and loose or consolidated waste rock backfill. The stopes are mined in primary, secondary and tertiary sequencing.

Production

		2008 objective	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Tonnes of ore milled (thousands)		*1,100*	1,046	1,060	933	-1%	+12%
Tonnes of ore milled per day		*3,000*	2,900	2,900	2,600	-1%	+12%
Grades (percent)	copper	*3.8*	3.8	3.8	3.9	–	-3%
	zinc	*6.0*	6.2	6.3	5.7	-2%	+9%
Mill recoveries (percent)	copper	*81*	81	82	84	-1%	-4%
	zinc	*72*	71	73	73	-3%	-3%
Metal production (tonnes)	copper	*33,600*	32,500	33,200	30,400	-2%	+7%
	zinc	*47,800*	46,200	48,600	38,700	-5%	+19%
Cost per tonne of ore milled (C $)		*$71*	$83	$74	$78	+12%	+6%

Record production in 2007

Çayeli's mine production was at record levels again in 2007, and by the fourth quarter it was producing at an annualized rate of more than 1.1 million tonnes. Both copper and zinc metal production were higher than 2006, and only marginally below the 2007 target.

Unfortunately, our activity this year was overshadowed by the death of a contractor employee in the second quarter. Çayeli is committed to doing everything it can to make sure its workers and contractors are working in a safe environment. We will continue to work diligently in this area in 2008.

Long-term, reliable operation of the ore pass system continued to be our focus in 2007. At times, moisture content and dump height resulted in plugging of the ore passes. We took interim measures to keep the system flowing and will implement longer term measures to permanently improve the operation of the ore passes.

Ore mineralogy continued to be a challenge in 2007, reducing recoveries of both copper and zinc. Metallurgical performance is impacted by the ore types and relative quantities of these ores delivered to the mill. In 2007 we improved our ability to characterize the ore and predict metallurgy, and we intend to continue our improvements in 2008. Surface stockpile levels of close to 10,000 tonnes and multiple ore passes should allow us to segregate ore by type, minimizing the metal losses associated with difficult ore types.

Outlook for 2008

Çayeli expects to complete improvements to the ore pass system in 2008, allowing it to mine and process 1.1 million tonnes of ore in 2008. The ore will come from all areas of the mine as the emphasis on the lower mine continues to increase. Ore pass performance is critical for efficient material flow.

Development of the mine will continue in 2008 with a focus on access and level development of the lower mine ore blocks. The levels in blocks 4 and 5 are to be developed with two independent accesses from the ramp to the main footwall drive to provide needed flexibility and allow any rehabilitation work to proceed without isolating the ore zone. This would allow the mine to operate at its maximum production rate of 1.2 million tonnes in 2009 and beyond.

Work is ongoing to test the possibility of removing zinc from Çayeli's off-spec concentrate and improve our economic recovery. Testing of Çayeli concentrates is currently underway to determine the parameters for a commercial process that would lead to basic engineering for a mill improvement. This work should be completed in early 2008 so a decision about feasibility and development could be made mid-year.

Mine development advanced significantly in the fourth quarter of 2007, reaching an annual rate of 4,100 metres. Development rates in 2008 need to reach a level of 4,800 metres. This is almost 27 percent higher than what was achieved in 2007 when waste disposal was hampered by poor performance of the cemented wastefill system.

Planning for the future

Now that the shaft extension infrastructure is complete, Çayeli is focusing on increasing mine production to 1.2 million tonnes per year in 2009.

The mine's new infrastructure allows ore to be transported through a combination of ore passes, conveyor drifts and the recently extended hoisting shaft. Development in 2008 will focus on access and level development of the lower mine ore blocks.

Production from several areas of the mine simultaneously should increase production. A key element of our ongoing mine planning is to increase the mining of higher grade zinc from the far north zone.

Ore from the Cerattepe project is planned to be processed at Çayeli. Engineering and procurement for the mill expansion is well underway and equipment with long lead times is on order. Once Cerattepe is in production (estimated in March 2009), Çayeli's mill should be producing at a rate of 1.5 million tonnes per year.

Çayeli has budgeted $1.2 million for surface drilling on its property, for underground drilling to test for deep targets within the existing Çayeli ore body and for other exploration around the mine.

When the mine is closed, Çayeli's infrastructure will be dismantled and any remaining waste rock will be placed underground in the mine. We currently estimate our closure costs to be US $7 million.

Pyhäsalmi

Pyhäsalmi is an underground copper and zinc mine located in central Finland

Location	Finland	Average reserve grades	copper — 1.1% zinc — 2.3%
Ownership	100%	Infrastructure	close to roads and rail connection at property
Type of mine	underground	Employees	212
Primary metal	copper	Contractors	52
Secondary metal	zinc		
End product	copper and zinc concentrate		
Expected mine life	2018		

Business structure

Pyhäsalmi Mine Oy is a wholly-owned subsidiary of Inmet Mining incorporated under the laws of Finland. Its main asset is the Pyhäsalmi copper and zinc mine.

Pyhäsalmi's mining concession consists of two leases:

- a mining lease for 59.2 hectares, covering all the mineralization and the mine itself
- an auxiliary lease for 352.4 hectares, covering all other areas used for mining purposes.

Pyhäsalmi holds both mining concession leases and holds over 3,000 hectares of other exploration claims located in Finland.

About the property

The Pyhäsalmi mine is in central Finland, four kilometres southeast of the town of Pyhäjärvi, on Lake Pyhäjärvi:

- it is within a two-hour drive from the cities of Oulu, Jyväskylä and Kuopio and their airports
- a rail spur joins the mine to the national network
- the rail spur also joins the mine to the port of Kokkola, 170 kilometres to the west on the Gulf of Bothnia.

Physical characteristics of the deposit

The Pyhäsalmi deposit is a copper zinc volcanogenic massive sulphide deposit of Proterozoic age:

- the mineralization is hosted by altered felsic and mafic volcanics
- the enveloping alteration zone is at least four kilometres long and one kilometre at its widest point. Alteration in the felsic volcanics includes sericite and cordierite dominated mineralogies.
- cordierite, anthophyllite and garnet dominate in the altered mafic volcanics
- the metamorphic grade is upper amphibolite facies

Geology

The upper part of the Pyhäsalmi deposit was mined between 1962 and 2001 and is now depleted.

Deep drilling in 1996 by Outokumpu Oyj (the previous owner) led to the discovery of an extension to the deposit below the +1050 metre level.

The newer deep deposit is located between the +1050 metre level (from surface) and the +1416 metre level:

- maximum dimensions are 420 metres long and 200 metres wide
- the inner part of the lens consists of massive pyrite with low copper and zinc values. This core is surrounded by massive chalcopyrite-pyrite and the outer rim consists of massive sphalerite-pyrite
- the main sulphide minerals are:
  - pyrite (65 percent)
  - chalcopyrite (three percent)
  - sphalerite (four percent)
  - pyrrhotite (three percent).

The ore is very coarse grained.

Mining method

Pyhäsalmi uses non-entry, bulk open-stope mining methods in a primary-secondary sequence. On average, stope size varies from 50,000 tonnes for narrow primary stopes to 200,000 tonnes for wider secondary stopes.

Environmental permit

Pyhäsalmi received its environmental permit in the fourth quarter 2007. This permit reflects the European Union Integrated Pollution Prevention and Control environmental regulatory framework that has been incorporated into Finnish legislation. The permit contains many new requirements in terms of studies and monitoring. We submitted the required environmental monitoring plan to the authorities at the end of 2007 and are moving forward under this new permit.

Production

		2008 objective	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Tonnes of ore milled (thousands)		*1,370*	1,377	1,370	1,372	+1%	+1%
Tonnes of ore milled per day		*3,750*	3,770	3,750	3,750	+1%	+1%
Grades (percent)	copper	*1.0*	1.0	1.0	1.0	–	–
	zinc	*2.5*	3.1	3.1	2.8	–	+11%
	sulphur	*41*	40	41	39	-2%	+3%
Mill recoveries (percent)	copper	*94*	96	94	95	+2%	+1%
	zinc	*90*	92	92	93	–	-1%
Metal production (tonnes)	copper	*13,000*	13,600	12,900	13,000	+5%	+5%
	zinc	*30,900*	38,900	38,400	35,700	+1%	+9%
	pyrite	*505,000*	485,800	537,000	512,000	-10%	-5%
Cost per tonne of ore milled (C $)		*$36*	$36	$33	$35	+9%	+3%

Exceeded targeted mine and mill production expectations

Pyhäsalmi mined 13 stopes during 2007, which produced 1.4 million tonnes of ore.

Copper and zinc metal production were essentially on target for the year, and higher than 2006. Pyrite production was below target this year because demand for pyrite was lower than expected.

Outlook for 2008

Pyhäsalmi expects to mine 1.4 million tonnes of 1 percent copper and 2.5 percent zinc in 2008, and produce 13,000 tonnes of copper and 30,900 tonnes of zinc. These estimates are lower than 2007 results because of the grade of the remaining ore.

To maintain throughput and increase efficiency in both the mine and mill, Pyhäsalmi plans to make improvements to the ore-pass system and replace key drilling equipment, as well as the primary mill motor and mill flotation cells. A new mill motor will allow speed to be adjusted more easily, which should increase throughput capacity in the grinding circuit and reduce energy costs. This should increase mill throughput by approximately five percent.

Planning for the future

At Pyhäsalmi, we plan for sustainable, low-cost production. Modern technology and automation have always been an important part of this operation so it can maintain its competitiveness. These efforts will continue. The unique geometry of the ore body has allowed us to put essentially all of the critical mine development in place at this early stage in the mine's life cycle. This allows the mine to focus on its production targets and keep the capital requirements for infrastructure at an unusually low level. Equipment will have to be replaced, however, as the mine ages.

We expect to spend $1.4 million on exploration at Pyhäsalmi in 2008, focusing on drilling out from the existing development and drilling and evaluating its current exploration claims. We also expect to spend another $1.4 million on greenfield exploration around Finland.

When the mine is closed, the main activity will be rehabilitating the surface area. This includes covering and re-vegetating the tailings impoundments. We currently estimate our closure cost to be €1.2 million.

Troilus

Troilus is an open pit gold and copper mine located in northern Quebec, Canada

Location	Canada
Ownership	100%
Type of mine	open pit
Primary metal	gold
Secondary metal	copper
End product	gold doré and copper concentrate
Expected mine life	2009

Average reserve grades	gold — 0.8 grams per tonne copper — 0.1%
Infrastructure	close to roads and rail
Employees	256
Contractors	29

Business structure

Troilus operates as a division of Inmet.

About the property

The Troilus property is about 175 kilometres north of Chibougamau, at 400 metres above sea level. The site is on Category III lands under the James Bay and Northern Quebec Agreement.

The property includes:

- one mining lease covering an area of 840 hectares
- 481 unpatented claims covering a total area of 7,511 hectares surrounding and adjacent to the mining lease
- five surface leases over an area of 1,502 hectares, which include the tailings lease, camp site, solid waste disposal site and access road.

Physical characteristics of the deposit

The Troilus disseminated gold and copper deposit is in the eastern section of the Archean Frotet-Evans greenstone belt.

The host rocks consist mainly of mafic lavas and intrusives with lesser intermediate to felsic volcaniclastic metasediments intruded by numerous sills and dykes of felsic porphyries.

Geology

Gold generally occurs as electrum, a gold-silver alloy and native gold. The gold occurs as discrete grains, from 20 to 4,000 microns in diameter, along sulphide grain boundaries, along fractures within the sulphides and along grain boundaries in small quartz veinlets.

The mineralization contains 2 to 3 percent sulphides:

- sulphides are pyrite, chalcopyrite, pyrrhotite, and rare sphalerite. The sulphides form disseminations, tiny veinlets and narrow semi-massive seams that are controlled by both foliation and fractures
- mineralization occurs within a zone of potassic altered in-situ brecciation at the margin of a mafic intrusive. Mineralization also occurs in felsic dykes cutting the zone.

Reserves are reported from two zones:

- the principal ore body, the 87 zone, which ranges from 10 to 100 metres wide, and has a strike length of 1,000 metres
- one satellite ore body, the J-4 zone.

The mineralized zone strikes in a northeast-southwest direction, and dips at approximately 55 degrees to 65 degrees to the northwest.

- sphalerite (four percent)
- pyrrhotite (three percent).

The ore is very coarse grained.

Mining method

Troilus operates as a conventional open pit mine, using two hydraulic excavators, three other excavators, a front-end loader, a fleet of nine haul trucks, two bulldozers and two graders.

Production

		2008 objective	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Tonnes of ore milled (thousands)		*6,600*	6,000	6,700	6,500	-10%	-8%
Tonnes of ore milled per day		*18,100*	16,500	18,400	17,800	-10%	-8%
Strip ratio		*1.1*	1.1	1.2	1.5	-8%	-27%
Grades	gold (grams/tonne)	*0.93*	0.87	0.88	0.86	-1%	+1%
	copper (percent)	*0.11*	0.05	0.06	0.05	-17%	–
Mill recoveries	gold (percent)	*83*	82	83	82	-1%	–
	copper (percent)	*92*	88	87	87	+1%	+1%
Metal production	gold (ounces)	*163,200*	138,400	157,900	147,900	-12%	-6%
	copper (tonnes)	*7,000*	2,800	3,300	2,900	-15%	-3%
Cost per tonne of ore milled (C $)		*$12*	$13	$11	$12	+18%	+8%

Mill throughput lower than last year

Troilus mined and milled 6 million tonnes of ore in 2007, which is 500,000 tonnes below 2006 and 700,000 tonnes below target. This was the result of several factors, including harder than expected ore from the 87 pit, mechanical failures and a lack of overall pump capacity in the mill.

Gold and copper production was lower than our 2007 target and lower than in 2006 because of lower throughput and grades. Copper production, however, was approximately the same as in 2006 because improved copper recoveries offset the lower throughput.

In January 2008, Troilus completed its program to upgrade the primary ball mill pumps to 1,500 horsepower and secondary ball mill pumps to 1,000 horsepower.

Gold and copper grades should increase significantly in 2008 as we return to mining in the bottom of the 87 pit after completion of the J-4 pit. The copper flotation capacity will be increased to accommodate the higher grades.

Outlook for 2008

In 2008, Troilus expects to mine and process 6.6 million tonnes of ore at a grade of 0.93 grams per tonne gold and 0.11 percent copper. This should result in production of 163,200 ounces of gold and 7,000 tonnes of copper.

Planning for the remaining mine life

The mine will continue with its present plan of open pit mining and stockpile recovery. The J4 pit is expected to be completed in the first quarter of 2008 while the 87 pit will continue to be mined into the second quarter of 2009. Stockpile recovery will begin in 2009.

As we mine the bottom of the pit, we will ensure stability of the pit wall by applying rock bolting and wall scaling.

As we approach the end of the pit life in early 2009, we will also increase the frequency of geotechnical audits.

When the mine is closed, we will dismantle the infrastructure and stabilize the open pit, and impound the tailings and waste rock dumps. Our current estimate of the closure cost is $9 million.

Our focus until the final closure will be human resources and retaining the skilled workforce that has developed at Troilus.

Ok Tedi

Ok Tedi is an open pit copper and gold mine located in Papua New Guinea

Location	Papua New Guinea	Average reserve grades	copper — 0.8% gold — 1.1 grams per tonne
Ownership	18%	Infrastructure	concentrate pipeline and river barging
Type of mine	open pit	Employees	2,100
Primary metal	copper	Contractors	1,200
Secondary metal	gold		
End product	copper concentrate		
Expected mine life	2013		

Business structure

Ok Tedi Mining Limited (OTML) owns the Ok Tedi mine, and has operated as an independent company since BHP Billiton Limited transferred its 52 percent equity interest in OTML to PNG Sustainable Development Program Limited in February 2002.

OTML owns and operates the Ok Tedi mine by virtue of the Mining (Ok Tedi Agreement) Act of 1976 (as amended) and under various mining leases under grant from the Government of Papua New Guinea.

About Ok Tedi Mining Limited

OTML has three owners:

- Inmet Mining Corporation (18 percent interest)
- PNG Sustainable Development Program Limited (52 percent interest), which is independent of the Government of Papua New Guinea and BHP Billiton Limited
- Government of Papua New Guinea (30 percent interest).

The current shareholder arrangements came into effect in 2002.

The OTML board's structure provides for six directors:

- one nominee representing each shareholder
- three independent directors (including the Managing Director), each with international mining experience who are appointed by mutual agreement of the shareholders.

The current OTML shareholders' agreement does not require us to fund any of Ok Tedi's cash requirements.

About the property

The Ok Tedi mine is on Mount Fubilan in the remote Star Mountains region of Papua New Guinea. It is approximately 18 kilometres east of the international border with the Indonesian province of Papua, 1,800 metres above sea level.

Ore treatment facilities are 1.6 kilometres away at Folomian, 420 metres below the mine. The mine and the nearby processing plant are situated on the upper reaches of the Ok Tedi River, a major tributary of the Fly River. Concentrate is then transported as a slurry through a 157 kilometre pipeline from the mine to the river port of Kiunga, where the concentrate is filtered, dried and stockpiled. Dried concentrate is loaded onto barges and sent 800 kilometres down the Fly River to a silo vessel in the Gulf of Papua for export.

The Fly River is the primary mine supply and copper concentrate transport route. Use of the river is in part governed by *Arrangements for the Use of the Fly River for the Ok Tedi project*, a 1981 agreement between Papua New Guinea and Indonesia.

The town of Tabubil is 22 kilometres from the mine and currently houses the operating personnel and their families.

Physical characteristics of the deposit

The ore body consists of a massive copper and gold porphyry deposit.

Copper and gold mineralization at Ok Tedi is typical of many gold-rich porphyry-related copper deposits in the circum-Pacific Island Arc Terranes.

Geology

The main body of mineralization at Ok Tedi is related to the intrusion and alteration of a monzonite porphyry stock. Subsequent leaching and redeposition of copper minerals produced a leached cap and an enriched copper zone, which overlies protore sulphide mineralization. Significant residual gold mineralization was dominant in the leach cap where copper was removed in the weathering process.

Similar gold values extended downwards into the copper mineralization in an annulus about a barren quartz stockwork core roughly centred in the Fubilian monzonite porphyry intrusive. The gold values correlate well with copper in the primary sulphide mineralization.

Skarn ore is developed where flat lying and sub-vertical faults locally controlled hydrothermal fluids and subsequent metasomatic alteration of the sedimentary rocks surround the intrusions.

Mining method

Ok Tedi is an open pit operation where up to 80,000 tonnes of ore and 152,000 tonnes of overburden can be mined each day.

Community agreements

PNG Sustainable Development Program Limited is required to use future dividend payments from OTML to fund current and long-term sustainable development projects in Papua New Guinea and in particular, the Western Province. The great majority of all communities affected by the operation of the Ok Tedi mine provided their consent to its continued operation under community mine continuation agreements (CMCAs).

Under the CMCAs, OTML provides compensation to affected communities over the remaining life of the mine, and is, along with its shareholders, released from claims relating to future environmental impacts. The CMCAs were reviewed throughout 2006 and into 2007, and on June 29, 2007 Ok Tedi concluded the scheduled mid-term review of the CMCAs and signed a memorandum of agreement (MOA) with most of the affected communities. Under the MOA, approximately 60,000 people in the Western Province will receive about one billion Kina (about US $300 million) over the next six years.

Parties to the MOA are OTML, the PNG Sustainable Development Program Limited and the Papua New Guinea National Government as well as 160 villages situated from near the mine to the delta at the mouth of the Fly River. The key elements of the MOA are:

- Under a regional development package, Ok Tedi has increased direct compensation funds to four times the previous level, a commitment of 324 million Kina (US $116 million) over six and a half years.
- The PNG Sustainable Development Program Limited will fund development projects in the affected areas at a minimum of 21.5 million Kina (US $7 million) each year or 129 million Kina (US $42 million) over six years.
- The PNG National Government has committed one sixth of the 30 percent dividend it receives to development projects in the affected areas and has set up a new trust to manage these funds. The value of this commitment is estimated at 466 million Kina (US $155 million), subject to future copper and gold prices.

Inmet's share of the revised payments from OTML under the MOA are approximately US $3 million annually (from about US $1 million previously).

Production

		2008 objective	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Tonnes of ore milled (thousands)		*25,300*	**25,800**	**27,500**	27,600	-6%	-7%
Tonnes of ore milled per day		*69,000*	**71,000**	**76,000**	76,000	-6%	-7%
Strip ratio		*1.3*	**1.3**	**1.1**	1.6	+18%	-19%
Grades	copper (percent)	*0.8*	**0.8**	**0.8**	0.8	–	–
	gold (grams/tonne)	*1.2*	**0.9**	**0.8**	0.9	+13%	–
Mill recoveries	copper (percent)	*85*	**86**	**87**	86	-1%	–
	gold (percent)	*67*	**71**	**70**	71	+1%	–
Metal production (tonnes)	copper (tonnes)	*174,000*	**169,200**	**188,000**	194,400	-10%	-13%
	gold (ounces)	*674,000*	**471,800**	**507,000**	550,100	-7%	-14%
Cost per tonne of ore milled (C $)		*$18*	**$18**	**$15**	$17	+20%	+6%

High fluorine levels lowered throughput

Mill throughput in 2007 was 1.7 million tonnes below target and 1.8 million tonnes below 2006. Daily throughput averaged about 71,000 tonnes per day for the year because of high fluorine content in the ore mined in the east section of the pit.

Smelters cannot accept material with high fluorine content because it damages the brick lining of the copper furnaces. Without mitigation, fluorine content in the concentrate would have risen above 2,000 parts per million, compared to a maximum allowable content of 1,200 parts per million under the marketing contracts. To reduce the impact, for most of the year Ok Tedi had been blending lower grade ore with lower levels of fluorine. Lowering throughput while blending the low grade ore brought the fluorine content in the concentrate back to acceptable levels.

The result, however, was that head grades were four percent below target for copper and four percent above target for gold, leading to copper production of 169,200 tonnes and gold production of 471,800 ounces.

Ok Tedi has developed a fluorine management plan, which includes solutions for the pit and the process plant, as well as a sales strategy for concentrate. The plan includes evaluating the possibility of separating the fluorine minerals from the concentrate using chemical reagents in the flotation circuit.

Operating costs for Ok Tedi were higher in 2007 compared to 2006 because of lower tonnes of ore produced and higher labour, contractor and community payments.

Ok Tedi (cont'd)

Outlook for 2008

Ok Tedi expects to process 25.3 million tonnes of ore grading 0.8 percent copper and containing 1.2 grams per tonne of gold. This is expected to produce 174,000 tonnes of copper and 674,000 ounces of gold. Ok Tedi expects a 43 percent increase in its gold production compared to 2007 because of the higher content of skarn ores in the mill feed.

The fluorine situation is expected to improve in 2008 as Ok Tedi opens additional working faces in the pit. Recoveries for both copper and gold are expected to be somewhat lower in 2008 compared to 2007.

Ok Tedi plans to mine a significantly higher portion of skarn ore in 2008 than it has in the past. Skarn ores are metallurgically more challenging and contain more sulphur than the porphyry ores that were predominantly mined in previous years. Skarn ores should significantly increase sulphur content in the mill feed (from three percent in 2007 to an average of eight percent in 2008). It is therefore crucial that the mine waste and tailings management plant is commissioned by the middle of 2008, since it is designed to remove most of the sulphur in the tailings stream and greatly reduce the environmental risk of acid rock drainage.

Planning for the future

Mine waste management program

Ok Tedi discharges both tailings and waste rock into the Ok Tedi River. These discharges include sediment build-up in the river beds, resulting in overbank flooding, forest die-back and reduced navigability, and have led to adverse effects on the environment in and around the Ok Tedi and Fly Rivers. There has also been the potential for acid rock drainage resulting from oxidation of sulphur from the mine-related sediments deposited in the Ok Tedi and Fly Rivers. These sulphide-bearing sediments may be prone to oxidation if they are exposed to air during periods of dry weather. Then if they are exposed to water, they may form dilute sulphuric acid.

Ok Tedi is implementing a comprehensive mine waste management program to substantially reduce the risk of future acid drainage from mine waste, as part of its objective to improve its long-term environmental performance. The program includes a new sulphur removal plant that, together with ongoing dredging and the addition of limestone to the waste rock, should mitigate the environmental impact of Ok Tedi's operations by reducing the amount of sulphide in the mill tailings that are currently discharged into the Ok Tedi River system.

Sulphide reduction — Using conventional flotation technology in the plant, Ok Tedi expects to reduce sulphides in the tailings stream to less than one percent sulphur. The sulphide concentrate will be transported through a 130 kilometre pipeline and stored in specially prepared containment areas in the dredge sands. The containment areas will remain under permanently saturated conditions, preventing the sulphides in the concentrate from oxidizing and forming acid drainage. At the end of the mine's life, the containment areas will be covered with an engineered layer of non-acid-forming sand to ensure the safe storage of the sulphide concentrates and the dredge sands.

The capital cost of the new waste management program is estimated to be US $170 million (Inmet's share would be US $31 million), of which US $127 million was spent by the end of 2007. Incremental annual operating costs should be equivalent to US $0.05 per pound of copper. The sulphide removal system is expected to be commissioned by the middle of 2008.

Dredging — In February 2002, a new environmental regime and long-term planning process for mine closure was put into effect for Ok Tedi. As part of that environmental regime, Ok Tedi Mining Limited submitted a change notice to convert the test dredging operation into a permanent one to mitigate the future impact of aggradation build-up in the Ok Tedi and Fly River systems.

OTML has included the annual dredging cost in its cash operating costs. It has also established a tax-deductible fund for reclamation of the mine site, which is currently estimated at US $130 million, and will contribute cash to the fund over the remaining life of the mine.

While dredging the sediments in the Ok Tedi River has reduced the river bed aggradation and overbank flooding, riverine waste disposal at Ok Tedi has had, and continues to significantly affect the Ok Tedi and Fly River systems with sedimentation of the river beds resulting in overbank flooding and acid rock drainage. Ok Tedi maintains a program to detect the presence of these sediments and monitor their impact as part of its effort to better understand the potential for future acid rock drainage and how this can be managed if it does occur.

While there have been ongoing studies to assess the environmental impact, Ok Tedi believes that these effects will likely be greater and last longer than previously thought, based on current findings from its monitoring program. Ok Tedi has also launched a program to fully inform the affected communities about the recent findings of the mine's anticipated environmental impact. These findings and future predictions have also been incorporated in the recent review of the CMCAs.

Water drainage

Water in the Ok Tedi pit currently drains freely to the south. Starting in 2009, the water will no longer drain freely from the pit, so Ok Tedi is in the process of constructing a drainage tunnel to provide for free drainage until the end of the pit life. A tunnel boring contractor has been hired and it is expected that the new drainage tunnel will be operational by the end of 2009. The capital costs for the tunnel are estimated at US $65 million (Inmet's share would be US $12 million).

Las Cruces

Las Cruces is a copper deposit located in southern Spain being developed as an open pit mine

Location	Spain
Ownership	70%
Type of mine	open pit
Primary metal	copper
Secondary metal	–
End product	copper cathode
Expected mine life	2008-2022

Average reserve grades	copper — 6.2%
Infrastructure	well maintained all-weather paved roads provide excellent access to the site
Employees	96
Contractors	894

Business structure

On August 22, 2005, Inmet acquired a 70 percent indirect interest in Cobre Las Cruces from MK Resources. Leucadia, through MK Resources, retained the other 30 percent.

The Las Cruces deposit was originally discovered by a subsidiary of Rio Tinto plc in 1994. It sold the project in 1999 to MK Resources, who established Las Cruces as its local Spanish subsidiary. They completed a second feasibility study in 2003 and carried out environmental studies and permitting work.

About the property

Las Cruces is located in the Sevilla Province of southern Spain, about 20 kilometres northwest of the city of Seville in the region known as Andalucia.

Las Cruces has been granted mining rights for subsurface minerals through Mining Concession No. 7532, granted by the Regional Ministry for Employment and Technological Development of the Province of Andalucia. The Mining Concession was granted in August 2003, after a positive Declaration of Environmental Impact was issued by the Andalucian Regional Ministry of the Environment in May 2002.

Las Cruces has purchased the surface rights to the land above the deposit and to the adjacent lands needed for infrastructure and is in the process of finalizing all of the rights of ways that are necessary to construct and develop the project.

The project also covers land in the public domain that requires permits that have already been obtained.

This excellent location provides access to all necessary infrastructure to develop a state-of-the-art mining project adhering to the highest environmental standards:

- well maintained, paved roads
- rail service in Seville
- international airport in Seville with connections throughout Europe
- port facilities available in Huelva, approximately 80 kilometres to the southwest.

Las Cruces will be mined using conventional open-pit mining methods, based upon hydraulic shovels and trucks, with drilling and blasting in the lower marls and ore zones. The project has a relatively high stripping ratio supported by the high grade ore. Las Cruces has been successfully using contract miners for the pre-stripping and plans to continue to do so for mine production.

Physical characteristics of the deposit

The massive sulphide is hosted by late Devonian to early Carboniferous Period volcanic and sedimentary rocks:

- deposited in a submarine setting within a narrow and relatively shallow intra-continental sea
- characterized by bimodal volcanism and sedimentation.

Post depositional secondary copper enrichment occurred in the upper part of the massive sulphide deposit, forming the mineralization of interest. The deposit was subsequently buried under 100 to 150 metres of sandstone and calcareous mudstone, called marl.

Las Cruces (cont'd)

Geology

The Las Cruces deposit occurs near the eastern end of the Iberian Pyrite Belt, a 250-kilometre long and 40-kilometre wide geologic belt that extends eastward from southern Portugal into southern Spain. The belt is host to more than 100 mineral deposits, some of which were exploited for metals as long ago as pre-Roman times. Mineralization consists of syngenetic massive sulphides containing polymetallic mineralization, similar to most other Iberian Pyrite Belt deposits.

Las Cruces is a blind deposit with no outcroppings because of the 100 to 150 metres of marl on top of the deposit. No other deposits have been found in the immediate area but exploration is difficult because of the thickness of the overburden.

The nearest deposits are Aznalcollar and Los Frailes, both approximately 10 kilometres to the west in the area where the host rock assemblage outcrops at the surface. The Aznalcollar and Los Frailes deposits consist of zinclead massive sulphides that were in production over the last 10 to 20 years.

Project update

Construction

Las Cruces' construction began in early 2007 with 55 percent of detailed engineering complete and the plant site prepared.

In May 2007, we revised the capital cost estimate for the project to €463 million, a 22 percent increase from the basic engineering estimate of €380 million. The revised costs cover escalation and growth in several areas as well as a significant increase in contingency allowance.

We also revised the project schedule in October 2007. This shifted forecast production of first copper through the process plant to the fourth quarter of 2008. This shift was because of delays with the engineering drawings and difficulties with civil works contractors, a situation that was exacerbated by labour shortages in a booming Spanish construction industry. Capital costs are expected to increase by approximately €4 million for each month of delay.

By December 31, 2007 Las Cruces had completed the following:

- essentially all detailed engineering and procurement
- 51 percent of construction
- 71 percent of total physical progress.

At the start of 2008, civil works are nearly complete, and the focus is shifting to mechanical work and piping installation. Electrical and instrumentation work is also well underway. Infrastructure projects to supply and store process water, provide power from the Spanish grid and divert a number of streams for environmental and safety reasons are essentially complete.

Mining progress and direct ore shipping

A total of 19.9 million bench cubic metres (bcms) of waste were removed from the mine in 2007, reaching a total of 27.8 million bcms for the project to December 2007. A further 2.4 million bcms is to be removed before we expect to reach ore in late April 2008. Mining costs have been 9 percent below budget because of more efficient blasting and haulage.

Since the process plant is not expected to be ready to process ore until the fourth quarter of 2008, starting May 2008 Las Cruces plans to selectively mine and crush a subset of approximately 130,000 tonnes of the available ore that averages 14 percent copper, and then ship this ore directly to selected smelters. This should result in the production of approximately 18,500 tonnes of copper and significantly mitigate the financial impact of the delay in completion of the process plant. At the same time, ore will be stockpiled in preparation for the plant start-up in the fourth quarter of 2008. The build-up of the stockpile will permit blending of the ore to ensure optimal feed for start-up.

Operating costs

Most cost estimates of consumables are now supported by firm price quotations and contract values. We expect the life-of-mine operating costs for Las Cruces to be approximately €0.49 per pound of copper produced. On an annual basis they should range from €0.53 per pound in the early years, to €0.44 per pound in later years when the mine's strip ratio decreases.

Project management and staff

During 2007 Las Cruces continued to successfully build its management team and has now filled all key positions. Plant management will be integral to commissioning and start-up. During 2007, in cooperation with the Andalucian and local municipal governments, Las Cruces provided a training program in operations and maintenance skills for more than 70 trainee workers and is now in the process of hiring more than 80 percent of these trainees.

Environment

Las Cruces continued its strict environmental management program during 2007 and is pleased to report that there were no significant environmental incidents. Progressive reclamation also continues. Las Cruces' environmental management system also became certified under ISO14001 in 2007.

Permits

The project has all major federal, provincial and municipal permits required to build the mine, plant and infrastructure.

Community relations

Las Cruces continues to have a very good relationship with the local communities. At the end of 2007, almost 200 local residents were directly employed by Las Cruces or its contractors, and local groups are visiting the mine on a regular basis.

Material contracts

In December 2005, Las Cruces entered into a credit agreement with a syndicate of Canadian and international lenders to finance development of the project. It completed an initial drawdown under the facility in June 2006.

The central and regional governments in Spain have agreed to provide subsidies of approximately €53 million in total. We have received advanced subsidy payments of €6 million, and do not expect the balance until after construction is complete and Las Cruces has fulfilled conditions related to investment and job creation.

Inmet Mining and Leucadia are responsible for the remaining funding for the project, which is estimated at €94 million. Inmet's share is 70 percent and Leucadia's is 30 percent. The funding is being advanced on a pro rata basis over the construction period.

See *Investor Information, Material contracts — Las Cruces credit agreement* on page 47 for more information.

Planning for the future

Las Cruces construction should be complete by the end of the third quarter and copper cathode production should begin in the fourth quarter. By the end of 2007, €370 million has been spent or committed on the project, and we expect to spend the balance in 2008. Las Cruces should start generating revenue in 2008 as 130,000 tonnes of high grade copper ore is expected to be shipped to smelters beginning in May.

The following table shows the spending made and required:

(millions)	Spending	Lending under Tranche A of credit facility	Subsidies received	Funding from project sponsors
Up to December 31				
2007	€ 263	€ 87	€ 6	€ 170
2008	200	84	47	69
	€ 463	€ 171	€ 53	€ 239

The following table shows expected production for 100 percent of Las Cruces:

	2008 target	*2009 target*
Tonnes of ore processed (thousands)	*240*	*800*
Strip ratio	*28*	*32*
Copper grades (percent)	*12*	*9*
Copper production (tonnes)	*27,000*	*64,000*
Smelter processing charges and freight for crushed ore sales (C$ per tonne)	*$ 277*	*–*
Direct production cost of ore processed (C$ per tonne)	*$ 172*	*$ 150*

Cerattepe

Cerattepe is a copper deposit located near the Çayeli mine in Turkey being developed as an underground mine

Location	Turkey	Average reserve grades	copper — 8.8% zinc — 1.1%
Ownership	100%	Infrastructure	close to roads
Type of mine	underground	Employees	38
Primary metal	copper	Contractors	31
End product	copper concentrate		
Expected mine life	2009-2014		

Business structure

The concession for the Cerattepe deposit is owned by Artvin Bakir Maden Isletmeleri, A.S. (ABMI), a wholly-owned subsidiary of Çayeli Bakir Isletmeleri A.S. by virtue of two operating licences granted by the Turkish Ministry of Energy and Natural Resources.

In March 2004, Çayeli acquired ABMI from an associated entity of Teck Cominco Limited for US $11 million. Çayeli paid US $2 million at closing and has two optional instalments of US $4.5 million each for the remainder of the purchase price.

We have obtained the initial construction and operating permit for the project but legal proceedings have slowed and complicated our activities.

About the property

Cerattepe is a small but high grade copper sulphide deposit near our Çayeli mine in northeastern Turkey.

We plan to mine the Cerattepe deposit from underground, at a rate of approximately 290,000 tonnes per year, and truck the ore to the Çayeli mill for processing. This will allow us to take advantage of the existing mill and other infrastructure at Çayeli to keep costs down. The operation should have a life of approximately five years.

The Cerattepe deposit is located in Artvin Province, in northeastern Turkey:

- approximately 100 kilometres due east of the Çayeli mine, and
- 60 kilometres south of the Black Sea port of Hopa.

It is in a mountainous region, 3.5 kilometres southwest of the town of Artvin and approximately 1,700 metres above sea level. Two switchback gravel roads provide access to the site.

Physical characteristics of the deposit

The Cerattepe deposit is a volcanogenic massive sulphide deposit, with significant concentrations of copper and zinc and minor concentrations of lead, silver and gold.

It also has a formation of a gold and silver rich gossan above and adjacent to the massive sulphide body.

Geology

The Cerattepe deposit consists of three distinct deposits:

- a massive sulphide zone that is rich in copper near the base
- a copper poor sulphide (low-grade) zone above the base
- an overlying oxidized gossan zone, which is rich in gold.

ABMI started technical feasibility work and environmental studies on the Cerattepe project in late 2003 and continued these through 2004. A feasibility study was completed by mid-2004 by SRK Consulting Inc. This study recommended mining only the higher grade portion of the copper ore body.

Project update

A revised capital and operating cost estimate was prepared in mid-2007 based on the results of additional engineering work, current exchange rates and updated commodity, material and labour costs. The revised capital estimate of US $87 million includes all historical and expected costs. Although costs have increased in all areas, the biggest increase is from the expansion of the Çayeli mill. Changes in currency exchange rates since mid-2004 added 14 percent to costs.

Activities on the mine site resumed in mid-2007 with an emphasis on developing the mine access by rehabilitating the mine decline. This work was successfully completed by the end of the year, and the ramp was extended towards the ore zone.

In 2007 we completed significant engineering work to prepare for construction. Our engineering, procurement and construction management firm completed site engineering layouts and geotechnical investigations, and supervised site construction.

Dopplemayr of Austria was awarded the contract to design and construct the aerial tramway that will take Cerattepe ore from the mine site to the landing station along the Borçka River. The tramway will also carry backfill and shotcrete materials 4.8 kilometres up the mountainside for the mine operation. Engineering has begun and the tramway should be installed by the end of 2008.

Basic engineering on the Çayeli mill expansion was completed. This expansion is designed to increase the throughput of the mill to 1.5 million tonnes per year to accommodate 300,000 tonnes per year from Cerattepe.

Design of the water treatment plant is complete, which means permitting and equipment procurement can begin. Equipment with long lead times are on order, and used equipment will be used where it is advantageous to the project cost and schedule.

In all, engineering and construction are on track for production in 2009.

Capital and operating costs

We completed the following capital and operating cost estimates in 2007:

Total capital costs	US $87 million (includes US $21 million for a mill expansion at Çayeli)
Operating costs	US $65 per tonne (includes transportation and processing)

Key project statistics

Production for the life of mine	1.4 million tonnes at a grade of 8.7 percent copper
Annual production level	290,000 tonnes
Expected production start	first quarter 2009

These costs include the $15 million spent up to December 2007 and remaining property option payments of US $9 million.

Permitting

Two cases have been filed as two separate actions corresponding to two of our key moving licences. The plaintiffs, Green Artvin and Artvin Bar, have characteristically requested an injunction against further activity. A ruling on the injunction request is expected before the end of the first quarter. These cases are brought against the Ministry of Energy and Natural Resources, who granted our permits, and we have applied for status as a co-defendant.

Permit applications continue along with the processing of permits which were recently submitted.

Legal proceedings

Prior to April 2007, Cerattepe was affected by a local administrative court decision that determined governmental authorities had incorrectly exempted the project operating licences from environmental assessment regulations. In April 2007, the Danistay (Turkish Administrative Supreme Court) directed the lower court to review its decision and re-instated the validity of the licences on procedural grounds. In June, the local court confirmed its agreement with the Danistay's decision. The plaintiff in the prior proceedings re-filed its applications to have the licences cancelled, and has also made applications to stop work on the property and to cancel a lease of the land on which the bottom ropeway terminus will be located. We have applied to join the proceedings as an intervenor and together with the Turkish Ministry of Energy and Natural Resources have filed defences to the applications which we believe are without merit.

The decision of the Danistay did not finally resolve the status of the operating licences but they remain valid pending receipt of any new decision from the local administrative court. As a result, we resumed permitting and on-site work in April 2007 and have continued with such efforts. Any adverse court ruling in the future could have a negative impact on, or stop our ability to progress, the project.

An active campaign of community dialogue and engagement continues to solidify support for the project.

Petaquilla

Petaquilla is an undeveloped copper, gold and molybdenum property located in Panama

Location	Panama
Ownership	48%
Type of mine	open pit
Primary metal	copper
Secondary metals	gold and molybdenum
End product	copper and molybdenum concentrate
Expected mine life	23 years
Average resource grades	copper — 0.5%
Infrastructure	20 kilometres from tide water
Employees	–
Contractors	–

Business structure

We have a 48 percent equity interest in Minera Petaquilla, S.A., (MPSA) the Panamanian company that holds the Petaquilla concession.

MPSA was incorporated in January 1997 under the laws of the Republic of Panama and has a mineral concession to explore and exploit the Petaquilla property (Contract-Law No. 9 of February 26, 1997, promulgated by the Government of Panama or *Ley Petaquilla*). *Ley Petaquilla* has an initial twenty year term from its date of enactment in February 1997 with provisions for two consecutive extensions of twenty years each.

Petaquilla Copper Ltd. holds a 52 percent equity interest. Teck Cominco Ltd. has the right to acquire a 26 percent equity interest in MPSA from Petaquilla Copper in return for funding 52 percent of all the development costs for the project to commercial production. Teck Cominco is the operator of the project.

About the property

The Petaquilla concession is located 120 kilometres west of Panama City and 20 kilometres from the Caribbean Sea coast, in the district of Donoso, Colon province, in the Republic of Panama. The concession consists of four zones totalling 13,600 hectares.

Access to the project area is via the southern Pan-American Highway system from Panama City to Penonome, surfaced all-weather roads to La Pintada, and gravel roads via the town of Coclecito. There is also an existing airplane runway at Coclecito. The topography in the concession area is rugged with considerable local relief covered by dense forest. Climatic conditions are equatorial, with high precipitation levels, high humidity and relatively high temperatures of 25° C to 30° C year-round.

Geology

In 1968, a United Nations Development Program team discovered copper, gold and molybdenum porphyry mineralization in the Petaquilla River region of central Panama during a regional survey.

Subsequent exploration outlined the Botija and Petaquilla porphyry deposits, which developed around granodioritic stocks within and peripheral to the Oligocene Petaquilla batholith. Significant epithermal mineralization has also been identified in a more distal setting to the batholith, as well as several mineralized prospects and deposits.

Progress report

In January 1998, Teck Cominco completed a feasibility study, which evaluated the Petaquilla porphyry deposits at daily ore throughput rates of 90,000 and 120,000 tonnes per day. The study concluded that Petaquilla needs infrastructure to provide power, a port and access which add to the capital cost, which the study projected to be US $1 billion for a 120,000 tonne per day operation.

In June 2005, Inmet, Petaquilla Minerals Limited and Teck Cominco Limited entered into an agreement for a phased development of the Petaquilla project, subject to approval by the Government of Panama. The first phase provided that Petaquilla Minerals would assume full risk to develop the Molejon gold deposit, situated within the Petaquilla concession, as a stand-alone gold mine. In December 2005, the Panamanian Minister of Commerce and Industry *MICI* issued a resolution declaring that for the purposes of *Ley Petaquilla*, the start of development of the Molejon gold deposit would constitute the start of the development of the copper project and related infrastructure and if completed within the required time, would also constitute compliance with MPSA's obligations under *Ley Petaquilla* to commence construction of the copper project.

The agreement concerning the Molejon gold deposit amongst Inmet, Petaquilla Minerals and Teck Cominco, however, does not confirm a decision by the shareholders of MPSA to proceed with a larger scale development of the Petaquilla project.

In April 2006, Inmet, Petaquilla Minerals and Teck Cominco engaged Amec Americas Limited (formerly H.A. Simons) to update the 1998 feasibility study by re-estimating the capital and operating costs for the project and to review opportunities for optimization. The cost update of the feasibility study was completed in January 2007.

Following completion of the Amec cost update, in May 2007, Teck Cominco, Petaquilla Copper (a new company Petaquilla Minerals transferred its interest in Petaquilla to) and Inmet entered into a memorandum of understanding (MOU) and agreed to a work plan to accelerate the development of the Petaquilla copper deposit in Panama by completing the front-end engineering and design (FEED), progressing the social and environmental impact assessment, commencing marketing discussions with our potential customers and advancing financing discussions.

In January 2008 the interim FEED study was completed and estimates that the capital cost required to develop the Petaquilla project would be US $3.5 billion (including a contingency of $515 million but not working capital or escalation). The capital cost estimate includes approximately $500 million for the provision for power and approximately $280 million for port facilities. Cash costs, including operating costs and smelter processing charges, net of by-product credits, in years 1 to 10 of the project are estimated to average US $0.85 per pound of copper produced. The study is based on the mine plan developed in 1998, which contemplates a 23-year mine life. The project contemplated in the interim FEED study includes a concentrator capable of processing 120,000 tonnes per day of ore. Construction is expected to take approximately 44 months from issuance of construction permits. Permitting would follow the submission of a social and environmental impact assessment, expected to be completed in the fourth quarter of 2008.

Capital costs for the project have increased substantially over previously published estimates because of scope changes, including enhancements in erosion control, water management and other environmental protection measures, and increases in equipment and construction costs that have been affecting projects worldwide. Despite the increase in capital costs required to develop Petaquilla, the shareholders believe that the project still has the potential to be a world-class mining operation.

Work is continuing on the final FEED study. A project review team is currently studying opportunities to reduce the capital costs from the interim FEED study estimate. Several possible opportunities have already been identified in the area of the grinding circuit, power supply and port infrastructure. The project review team is evaluating these opportunities and, where appropriate, will incorporate these changes into the final FEED study capital cost estimate.

The MOU also provides that Teck Cominco will commit by March 31, 2008 to make a one-time election to exercise its option to acquire a 26 percent interest in MPSA. In addition, Inmet and Petaquilla Copper agreed to have an independent engineering firm perform an evaluation of oxides overlying the Petaquilla, Botija and Grande Valle sulphide deposits and other areas within the Petaquilla concession. If the evaluation demonstrates that separate mining and processing of oxides can be justified from an economic and environmental perspective, Inmet has the right to elect to participate with Petaquilla Copper in such activities on a 48/52 percent basis. Teck Cominco would have no economic interest from such activities.

Should Teck Cominco elect to exercise its option, it will remain as operator of the project and will be entitled to recover all of the investment in the project funded by it (52 percent), plus interest out of 52 percent of the project's cash flow before Petaquilla Copper is entitled to receive its 26 percent share of such cash flow.

Exploration

Securing our future growth potential

We are developing a pipeline of future growth opportunities through our development and pre-development projects and our exploration strategy, which is focused on exploring for world-class copper deposits with annual production of at least 100,000 tonnes of contained copper with a mine life of at least 20 years.

Our exploration strategy is two-pronged to offer the greatest potential:

- exploring worldwide for copper deposits that are consistent with our growth objectives
- exploring our operational areas to take advantage of the existing infrastructure and to potentially extend the life of a mine or increase mill output.

In the last five years, we have concentrated mainly on the areas we operate in. At Çayeli and Pyhäsalmi, the exploration team has targeted volcanogenic massive sulphide (VMS) deposits within trucking distance of our mills. These deposits tend to be smaller and provide good growth opportunities in the vicinity of existing operations, but have limited potential for large-scale production.

In 2006, we set an objective to look for world-class copper opportunities, with the potential to add 100,000 tonnes of annual copper production to our portfolio and have a mine life of over 20 years. For 2008, we decided to increase our annual exploration budget from approximately $7 million to approximately $12 million by 2010, to help us find these opportunities. We are also tracking and evaluating junior mining activity based on scale, funding and/or non-commodities to identify possible joint ventures or equity positions.

We have been gradually directing our activities into new areas where we believe the probability of achieving this growth objective is highest. This has meant revisiting both the type of copper deposit we look for, and the geographical areas we explore in.

We believe that copper-gold and copper-molybdenum porphyries, sedimentary-hosted copper, skarns and iron oxide copper gold deposits are most likely to help us meet our growth objectives.

We have ranked countries that have the potential to host these types of deposits by five criteria:

- geological favourability
- quality of their geodatabase
- political risk
- infrastructure
- level of competition.

Our exploration is now focused on Peru, Sweden, Finland, Mexico, Chile and the porphyry belts of Turkey.

Promoting a safe and healthy environment

Our success in developing a sustainable business depends in part on how well we make our operations safe and rewarding places to work, and on how well we manage the economic, environmental and social impacts we have on the communities we operate in.

We expect our employees to adhere to the four key principles in our Leadership Charter that relate to sustainability:

- ensure a safe and healthy working environment by following safe working practices
- demonstrate social and environmental responsibility in what we do
- consult and listen to others
- treat others fairly and with respect.

These principles apply to all of our dealings with employees, shareholders, the communities where we operate and all other stakeholders.

Health and safety

We are deeply committed to the safety of everyone in our operations. We expect our employees and contractors to work safely and to respond immediately to correct any unsafe behaviour.

We have invested considerable time and resources to develop a risk management mindset among our employees, as well as management tools that foster a culture that promotes safety.

Our health and safety management systems cover:

- occupational health
- reporting and investigating any accidents or incidents
- safety meetings
- workplace inspections
- analysis of job safety
- personal protective equipment
- training.

We also benchmark our safety performance against statistics of the Mines and Aggregates Safety and Health Association, an Ontario workplace organization for safe mining.

Environment

Responsible environmental stewardship is a high priority. Because mining, by its nature, has an impact on the environment, we have developed environmental management systems that cover:

- reporting and investigating any incidents
- tailings management
- environmental protection and management
- emergency preparedness and response
- closure plans and closure cost estimates.

Our biggest concern is how we manage mine waste, specifically waste rock and tailings, to control the potential effects on the environment. To make sure tailings are managed responsibly at all of our operations, we have adopted the principles of two guides published by the Mining Association of Canada:

- *Management of Tailings Facilities*
- *Developing an Operations, Maintenance Surveillance Manual for Tailing and Waste Management Facilities.*

We also continue to improve our systems. Senior management's review of our 2004 tailings performance prompted us to expand our existing tailings management policy at wholly-owned sites to include all mine waste as of 2005. This change means that the standards that currently apply to tailings management will also apply to waste rock and other forms of mine waste.

We have also formed a corporate community stakeholder panel to test ideas and seek opinions on different environmental and social responsibility matters. The panel consists of several experts in the fields of responsible investing, environmental conservation, community development, governance and mining.

Closed properties and reclamation

We have reclamation projects involving closed mining properties in Canada and the United States:

Canada

- Winston Lake, near Schreiber, Ontario
- Sturgeon Lake, near Ignace, Ontario
- Norbec, in west central Quebec
- Samatosum, near Barriere, British Columbia

United States

- Copper Range, in the Upper Peninsula, Michigan

The table below shows our spending on reclamation over the past three years:

(millions)	2005	2006	2007
Reclamation spending	$ 3.0	$ 2.5	$ 3.4

Our reclamation activities at our closed properties progressed according to plan during 2007. Most of the individual reclamation projects at the closed properties have been completed with long-term treatment of mine-impacted water at several sites.

We expect reclamation spending to be approximately $4 million in 2008.

Community affairs

We have formal procedures in place at all of our active operations for addressing concerns and complaints from the community.

We are engaged in an on-going process of increasing the frequency and quality of formal community dialogue at all of our operations and closed properties. Ok Tedi already has a formal engagement and dialogue plan and a record of substantial, long-term community engagement.

Sustainability report 2007

Our sustainability report (which does not form part of this AIF) can give you a better understanding of how we manage our operational, social and environmental risks, and how our systems and performance are evolving over time.

Our 2007 sustainability report will be available to download from our website www.inmetmining.com in spring 2008.

Mineral reserves and resources

The table below shows our mineral reserves and resources estimated as at December 31, 2007.

Operating properties

	Category	Tonnes (x 1000)	Cu %	Zn %	Au g/t	Ag g/t	S %	Mo ppm	Contained Metal (x 1000) Cu tonnes	Zn tonnes	Au ounces	Ag ounces	Mo tonnes	Inmet's Interest
Mineral reserves														
Çayeli	Proven	3,800	3.8	5.5	0.6	45	–	–	142	210	67	5,250	–	100%
	Probable	6,670	3.4	5.4	0.5	48	–	–	224	358	109	10,302	–	100%
	Total	10,470	3.5	5.4	0.5	46	–	–	366	568	176	15,552	–	100%
Pyhäsalmi	Proven	14,380	1.1	2.3	0.4	14	41	–	160	331	186	6,494	–	100%
	Probable	–	–	–	–	–	–	–	–	–	–	–	–	100%
	Total	14,380	1.1	2.3	0.4	14	41	–	160	331	186	6,494	–	100%
Troilus	Proven	6,120	0.1	–	0.6	–	–	–	4	–	114	–	–	100%
	Probable	9,140	0.1	–	1.0	–	–	–	11	–	289	–	–	100%
	Total	15,260	0.1	–	0.8	–	–	–	15	–	403	–	–	100%
Ok Tedi	Proven	119,000	0.7	–	0.9	–	–	–	804	–	3,258	–	–	18%
	Probable	31,000	1.3	–	2.0	–	–	–	403	–	2,002	–	–	18%
	Total	150,000	0.8	–	1.1	–	–	–	1,207	–	5,260	–	–	18%
								Inmet's share	**758**	**899**	**1,712**	**22,046**	**–**	
Mineral resources														
Çayeli	Measured	1,270	3.8	3.9	0.5	30	–	–	48	50	22	1,229	–	100%
	Indicated	1,710	3.7	2.7	0.5	33	–	–	63	46	30	1,817	–	100%
	Inferred	610	3.3	8.8	–	–	–	–	20	54	–	–	–	100%
Pyhäsalmi	Measured	8,580	0.6	0.4	–	–	44	–	55	34	–	–	–	100%
Troilus	Indicated	29,400	0.2	–	1.5	–	–	–	47	–	1,400	–	–	100%
	Inferred	7,900	0.1	–	1.2	–	–	–	11	–	300	–	–	100%
								Inmet's share (not including inferred resources)	**213**	**130**	**1,452**	**3,046**	**–**	

Development and pre-development properties

	Category	Tonnes (x 1000)	Cu %	Zn %	Au g/t	Ag g/t	S %	Mo ppm	Contained Metal (x 1000) Cu tonnes	Zn tonnes	Au ounces	Ag ounces	Mo tonnes	Inmet's Interest
Mineral reserves														
Las Cruces	Proven	9,790	6.4	–	–	–	–	–	629	–	–	–	–	70%
	Probable	7,835	6.0	–	–	–	–	–	469	–	–	–	–	70%
	Total	17,625	6.2	–	–	–	–	–	1,098	–	–	–	–	70%
Cerattepe	Probable	1,560	8.8	1.1	1.4	33	–	–	138	17	68	1,655	–	100%
								Inmet's share	**907**	**17**	**68**	**1,655**	**–**	
Mineral resources														
Petaquilla	Measured	526,000	0.5	–	0.1	–	–	101	2,842	–	1,732	–	53	48%
	Indicated	424,000	0.5	–	0.1	–	–	94	1,997	–	1,091	–	40	48%
	Total	950,000	0.5	–	0.1	–	–	98	4,839	–	2,823	–	93	48%
								Inmet's share	**2,323**	**–**	**1,355**	**–**	**45**	

Notes to mineral reserves and resources table

Mineral reserves and resources are shown on a 100 percent basis for each property. Mineral resources are exclusive of mineral reserves.

The mineral reserve and resource estimates are prepared in accordance with the *CIM Definition Standards On Mineral Resources and Mineral Reserves*, adopted by CIM Council on November 14, 2004, and the *CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines*, adopted by CIM Council on November 23, 2003, using geostatistical and/or classical methods, plus economic and mining parameters appropriate to each project. You will find the definitions and guidelines at www.cim.org.

Estimates for all operations except Ok Tedi are prepared by or under the supervision of a qualified person as defined in National Instrument 43-101 (usually an engineer or geologist). Ok Tedi's estimates are prepared by competent persons as defined in the *Australasian Code for Reporting of Identified Mineral and Ore Reserves* (the Australasian Code).

There are no known environmental, permitting, legal, taxation, political or other relevant issues that would materially affect the estimates of the mineral reserves except in the case of Cerattepe.

Mineral resources do not have demonstrated economic viability.

Çayeli

Resource and reserve estimates prepared at December 31, 2007 under the supervision of Joseph Boaro, P. Eng. (Technical Manager, Çayeli).

Reserve estimates are based on the following assumptions:

- copper price: US $1.50 per pound
- zinc price: US $0.75 per pound
- net smelter return cut-off: US $56 per tonne.

Resource estimates include only material in addition to those used to generate reserves and are based on the same metal prices and a lower net smelter return cut-off: US $50 per tonne.

Pyhäsalmi

Estimates prepared at December 31, 2007 have been audited by Wardrop Engineering and prepared under the supervision of Timo Maki, Geologist, European Federation of Geologists (Chief Geologist, Pyhäsalmi).

Reserve estimates are based on the following assumptions:

- copper price: US $1.50 per pound
- zinc price: US $0.75 per pound
- exchange rate: €1.00 = US $1.30
- net smelter return cut-off: €25.00 per tonne.

Resource estimates are based on the geological limits of the massive sulphides.

Troilus

Resource and reserve estimates prepared at December 31, 2007 under the supervision of Yves Beauchamp, P. Eng. (Chief Engineer, Troilus).

Reserve estimates are based on the following assumptions:

- gold price: US $450 per ounce
- cut-off grade: 0.45 grams of gold per tonne
- exchange rate: C $1.20 = US $1.00.

Underground resource estimates are based on the following assumptions:

- gold price: US $450 per ounce
- copper price: US $1.10 per pound
- cut-off grade: 0.80 grams of gold per tonne
- net smelter return cut-off: US $13.50 per tonne
- exchange rate: C $1.20 = US $1.00.

Mineral reserves and resources (cont'd)

Ok Tedi

Estimates prepared at December 31, 2007 by Ok Tedi Mining Limited (OTML) according to the Australasian Code. The competent persons responsible for the estimate were Karl Smith (Manager Mine Planning Services, OTML) and Ian Sheppard (Executive Manager Technical Services, OTML).

Ok Tedi reserves have declined by 136,000 tonnes of contained copper and 677,200 ounces of contained gold, net of that milled in 2007. This reduction is due to an update of the geological resource estimation model completed in 2007 following the in pit drilling over 2005 to 2007, a categorization change of the mineral resource from the indicated to the inferred category and pit design changes.

OTML plans to complete additional resource drilling, detailed pit design improvements based on geotechnical investigations and review of cut off grades reflecting the current higher metal prices in 2008. We expect that OTML's planned 2008 activities should recover a majority of the reserve decline in the December 31, 2007 estimate.

Estimates are based on the following assumptions:

- copper price: US $0.90 per pound
- gold price: US $350 per ounce.

Las Cruces

Reserve estimates prepared at December 31, 2007 under the supervision of Michael Doyle, FIMM, FAIMM (Technical Manager, Cobre Las Cruces).

Reserve estimates are based on the following assumptions:

- copper price: US $1.10 per pound
- exchange rate: €1.00 = US $1.20
- open pit cut-off: 1 percent copper (95.3 percent of copper in reserve)
- underground cut-off: 3 percent copper (4.7 percent of copper in reserve).

Cerattepe

Estimates were prepared during a 2004 feasibility study and are valid as of December 31, 2007 under the joint supervision of:

- Ken Reipas, P. Eng. (SRK Consulting)
- Michael Michaud, P. Geol. (SRK Consulting) and in consultation with:
- Ian Pirie, P. Geol. (Project Manager, Cerattepe).

Estimates are based on a copper price of US $0.90 per pound.

Petaquilla

In 2007, AMEC performed a review of the Petaquilla mineral resource as reported in the 1998 feasibility study (Simons, 1998). AMEC is of the opinion that the resource estimates for the Petaquilla and Botija deposits reported in that study are compliant with current National Instrument 43-101 standards and CIM best practices. This review was performed under the supervision of:

- Ted Eggleston, Principal Geologist, AMEC.

Estimates are based on the following assumptions:

- copper price: US $1.10 per pound
- gold price: US $375 per ounce
- molybdenum price: US $3.50 per pound
- net smelter return cut-off: US $3.50 per tonne
- average metallurgical recoveries: 86 percent for copper, 58 percent for gold and 62 percent for molybdenum.

Risk factors in our business

There are risks in every business and the mining industry has its own inherent risks. The reality is that only a few properties that are explored are ultimately developed into producing mines, and this is often for reasons that cannot be anticipated in advance.

Even after mining operations begin, there can be environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding. Any of these can damage or destroy mineral properties or impact the environment. They can also result in personal injuries, production delays or interruptions, higher production costs, financial losses, legal liability and adverse government action.

We maintain insurance coverage to cover some risks, however, like any other mining company, we may not be able to and do not obtain insurance to cover all risks.

The section that follows provides a description of the most material risks affecting Inmet.

Reserve and production estimates

Our mineral reserves and resources are the foundation of our business. They dictate how much ore we can produce, and how many years we can produce it for.

The mineral reserves we have reported as of December 31, 2007 are estimated quantities of proven and probable mineral reserves that can be mined legally and economically, and processed by extracting their mineral content under current conditions and conditions anticipated in the future. We determine the amount of our mineral reserves according to the regulatory requirements that apply, and following established mining standards.

The volume and grade of reserves we actually recover, and rates of production from our current mineral reserves, may be less than geological measurements of the reserves. Fluctuations in the market price of copper, gold, zinc and other metals, changing exchange rates and operating and capital costs may make it uneconomical to mine certain mineral reserves in the future.

Short-term operating factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different ore grades, may also prompt us to modify mineral reserves estimates or make one of our operations unprofitable in a particular fiscal period. There is no assurance that the indicated amount of ore will be recovered or that it will be recovered at prices we have assumed in determining the mineral reserves.

Mineral reserve estimates can be uncertain because they are based on limited sampling and not the entire ore body. As we gain more knowledge and understanding of the ore body, the reserve estimates may change significantly, either positively or negatively.

We prepare estimates of future production that are based on, among other things:

- reserve estimates
- assumptions about ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics
- estimated rates and costs for mining and processing.

Our actual production could be different for a variety of reasons, including:

- actual ore mined varying from estimates of grade
- tonnage
- dilution
- metallurgical and other characteristics
- short-term operating factors relating to the mineral reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades
- risks and hazards associated with mining
- natural phenomena, such as inclement weather conditions, floods and earthquakes
- unexpected labour shortages or strikes.

There is no assurance that we will achieve our production estimates. Failing to achieve production estimates could have a material adverse effect on our future cash flows, earnings, results of operations and financial condition.

Because the life of a mine is limited by its mineral reserves, we continually look for opportunities to replace and expand our reserves by exploring existing properties and by looking for potential acquisitions of new properties or companies that own new properties. There is no assurance, however, that we will be successful in our efforts.

Risk factors in our business (cont'd)

Metal prices

We produce concentrates that we sell for processing into refined metals. Our earnings are derived from the sale of the metals and fluctuate with changes in the market prices for the refined metals. The most significant factor affecting our financial performance is the price we receive for the metals we produce and sell. This has an impact on our sales revenues, smelter processing charges and certain variable costs, such as royalties.

Metal prices are affected by many factors beyond our control, including:

- global supply and demand
- regional supply and demand
- political and economic conditions
- exchange rates relative to the US dollar
- inflation expectations
- speculative activities
- production costs in major producing regions.

We do not typically hedge the prices of the base metals we produce. Any decrease in the market price of one or more of these metals could materially adversely affect the value and amount of our reserves, our business, financial condition, liquidity and results of operations.

To manage the risks associated with hedging, we have a metal price hedging policy that, among other restrictions:

- limits the amount of production we can hedge to 50 percent of our reserves
- restricts the amount of hedging that we can transact with any one counterparty. Any counterparty we deal with must be highly rated.

Because of the high cost nature of our Troilus mine, we use hedging instruments such as forward sales contracts to manage changes in the price of gold. Ok Tedi has forward sales contracts for about 10 percent of its 2008 gold production and about five percent for years 2010 to 2013. Although we enter into hedging transactions, there can be no assurance that we will not be adversely affected by fluctuating metal prices.

Exchange rates

Almost all of the revenue we earn is in US dollars, but because we operate in countries around the world, our costs are in several different currencies. We are most affected by changes in the various exchange rates between the Canadian dollar, the US dollar and the euro.

We may use option contracts to hedge against changes in the US dollar. While we use these contracts to limit our exposure to changes in currency rates, there's still the potential for any changes in currency exchange rates to have an adverse effect on us.

Smelter processing charges

We sell concentrate mainly to smelters, which process it into refined metal. Smelter processing charges are made up of the contracted price for treatment and refining charges, and costs to cover metal losses in the smelting process (referred to as *content losses*). Most contracts also include a price participation clause where the smelter participates to some extent in the upward and downward movement in metal prices. We sell most of our concentrate under long-term contracts. We also sell in the spot market where the economic return is typically more volatile. Contract terms dealing with processing fees are normally negotiated once a year and depend on forecasted supply of concentrate, and smelter demand.

At Las Cruces we will produce copper cathode, bypassing the smelters and eliminating smelter and refining treatment charges. Copper cathode generally receives a premium above market prices, and can be sold and shipped to buyers closer to the operation.

Human resources

People are core to our success. The currently buoyant commodities markets have resulted in a shortage of skilled recruits, especially trades people. We have a comprehensive strategy in place to make sure we attract and retain people of the highest calibre. This includes training, competitive compensation and other incentives.

Regulatory risk

Our operations and investments are subject to environmental laws and regulations in Canada and other countries. This controls the mining and exploration of mineral properties and the possible effects that these activities could have on the environment. We require permits from a variety of regulatory authorities for many aspects of mine operation and reclamation.

If new legislation and regulations are introduced in the future, they could lead to additional costs, capital expenditures, restrictions and delays at existing operations or developing properties, and it is impossible to predict the extent of any of these possible changes.

When we receive environmental permits, including the approval of reclamation plans, we must comply with standards that have been established and existing laws and regulations. This can increase or lower costs or cause delays or both, depending on the activity and how rigorously permitting authorities enforce regulations.

Laws and regulations can change, which would create significant uncertainty around the environmental and reclamation costs we incur. Environmental and regulatory review has also become a long, complex and uncertain process that can delay the opening of a new mine or extend decommissioning activities at closed mines. Regulatory developments or changes in the assessment of conditions at closed sites can vary substantially, positively or negatively, from prior estimates of reclamation liabilities.

The ore body at Las Cruces is located below a regional aquifer. Las Cruces has developed a program to pump the water out around the mine pit, transport it in closed pipelines to prevent contamination and then re-inject it into the same aquifer to ensure that the water and its quality are preserved.

Mine restoration will begin during construction so the site will be reclaimed and re-vegetated progressively throughout the life of the mine. Once mining at the site is finished, some of the marl will be put back into the open pit to seal the aquifer. The marl will also be used to encapsulate all of the tailings and waste products from the mine.

At Cerattepe, permitting has been a significant factor affecting the project. ABMI has been working diligently with the regulatory agencies to obtain all necessary permits. An active campaign of community dialogue and engagement is also underway to solidify support for the project.

Development risk

Las Cruces is a development project, and while we are confident that the project will add value as planned, there are still significant risks to completing the project as planned, particularly in the ability of Las Cruces contractors to meet critical construction milestones. While there are rigorous controls on contractor performance, progress depends on the abilities of the Las Cruces owner team and construction manager to hire the necessary resources and effectively manage them.

A local non-governmental group has initiated several legal proceedings claiming that various governmental approvals for the project were not granted according to regulatory requirements. We believe these claims are without merit and are vigourously defending against them. Two of these proceedings were dismissed in 2006. Two other proceedings are still outstanding.

Ground conditions

Ground conditions at our mines are an important challenge, especially as a mine matures.

At Çayeli, in order to address the risks of adverse ground conditions, the design and sequencing of working areas has minimized the impact of difficult ground conditions.

At Pyhäsalmi, the operation has developed a sophisticated management system for ground control that includes seismic sensors throughout the mine and modeling programs to analyze the data. Stope sizes and ground support requirements are evaluated on a case-by-case basis to address local ground conditions and the stability of the stopes. In 2008, we plan to reduce stope heights to lower the risk associated with stope caving, oversize boulders and to reduce the height of backfill exposures.

At Troilus, as the pit gets larger the potential for geotechnical problems increases. Troilus is lowering this risk substantially through good blasting practices, general pre-splitting in critical areas, anchoring in critical areas and retaining independent geotechnical experts to conduct a bi-annual audit.

Risk factors in our business (cont'd)

Competitive risk

Our primary focus is on copper and zinc, and gold to a lesser extent. We sell these products at world market prices that we do not and cannot influence. We reduce our exposure somewhat to cyclical swings in individual metal prices and foreign currencies, however, because of the diverse geographical locations of our operations and the different products they produce.

Our competitive position depends on our ability to control operating costs. The cost structure of each operation is based on the location, grade and nature of the ore body, and the management skills at each site.

Many of our costs are driven by supply and market demand. For example, the cost of local materials, like cement or explosives, and electricity will vary based on demand. Wages can be affected by inflation and currency exchange rates and most recently have been impacted by the shortage of mining human resources. The costs of fuel and steel are driven by global market supply and demand. We do not enter into long-term contracts for any consumable products. Our main cost drivers include the cost of labour plus consumables such as electricity, fuel and steel.

Our competitive position also depends on our ability to expand our mineral reserves through exploration and acquisitions of other mining companies or properties. We may experience strong competition from other mining companies as we look for acquisition opportunities, especially with the consolidation that has occurred in the mining industry in 2007.

Most new copper will come from large low grade deposits and the development of these projects will require significantly more capital investment. It is the consolidated larger companies that have the strong financial resources to develop these projects. Our ability to finance a large scale project that we control could be challenging in this environment.

Energy and power supply and prices

Our operations, by their nature, use large amounts of power and energy. Our ability to obtain a secure supply of energy and power at a reasonable cost depends on many factors, including:

- global and regional supply and demand
- political and economic conditions
- problems that can affect local production
- delivery and relevant regulatory regimes.

Even a temporary interruption of power could adversely affect an operation. An increase in power and energy prices could negatively affect our business, financial condition, liquidity and results of operations.

Access to markets

Regulatory and voluntary initiatives that restrict or eliminate the use of certain metals or specific products or applications can affect the supply of, and demand for, metals as well as lower metal prices.

Political risk

We have operations in Papua New Guinea and Turkey but do not regard the nature of these countries as a significant deterrent to our operations or investments.

Our operations and investments outside Canada could be adversely affected by war, civil disturbances and activities of foreign governments that limit or disrupt markets, restrict the movement of funds or supplies, or restrict contractual rights or take property without fair compensation.

These operations and investments could also be negatively affected by changes in Canadian laws and regulations relating to foreign trade, investment and taxation. From time to time, we have entered into joint venture arrangements with local partners to mitigate political risk. We do not currently have political risk insurance.

Meteorological factors

Ok Tedi's ability to generate electrical power, ship concentrates to its customers and bring supplies to the operations depends on the amount of rainfall in the area.

When rainfall levels are low, sand banks in the river prevent the barges from passing and concentrate are stockpiled at the river port. Low water levels can also potentially delay shipments of supplies of fuel and explosives to the mine.

Ok Tedi's ability to generate electrical power also depends on the amount of rainfall in the area. If prolonged dry weather conditions occur, the mine may have to cut back or suspend production, which would have an impact on operating results.

Ok Tedi has taken the necessary steps to minimize the impact on the operation by keeping concentrate stockpiles at the lowest possible levels, and increasing its inventory of diesel fuel and other consumables. This should allow the mine to operate for 45 days without interruption during a complete drought, and for 90 days during a drought where there is intermittent rainfall.

Non-project legal proceedings

OTML, its shareholders, including Inmet Mining, and a subsidiary of BHP Billiton that formerly provided management services to the mine, have been named as defendants in a legal proceeding filed with the Papua New Guinea National Court of Justice in October 2006.

The proceeding concerns a claim for damages for environmental harm allegedly caused by the operation of the Ok Tedi mine. The total amount of damages sought was not specified in the claim. The plaintiffs are members of the Ningerum and West Ningerum clans, some of whom are participants in the Community Mine Continuation Agreement process. OTML and Inmet each filed with the Court notice of their intention to defend against the action. In mid 2007, various defendants brought motions to have the action dismissed. In November 2007, the Court ordered that the proceedings against all defendants be dismissed. The plaintiffs have filed a notice of appeal in the Papua New Guinea Supreme Court of Justice concerning the dismissal. Both OTML and Inmet continue to believe the claim is without merit and that they each have good defences to the action.

In addition to substantive defences, OTML is a limited liability corporation. Inmet therefore, in its capacity as a holder of fully paid shares, is not exposed directly or derivatively to liabilities that may attach to OTML itself.

In April 2006, the Fly River Provincial Government filed a reference with the Papua New Guinea Supreme Court of Justice challenging the constitutional validity of certain aspects of the Mining *(Ok Tedi Mine Continuation (Ninth Supplemental) Agreement)* Act 2001 (the Act) passed by the National Parliament. The Act, among other things, gives the force of law to the Community Mine Continuation Agreements, where local communities affected by the Ok Tedi mine have consented to its continued operation. OTML intervened in the proceedings, and brought a motion seeking to have the constitutional challenge dismissed. In August 2007, the Papua New Guinea Supreme Court of Justice ruled that the constitutional challenge was improperly brought before it and ordered that it be dismissed.

Investor information

Inmet Mining's corporate structure

June 1, 1987

Metall Mining Corporation / Corporation Minière Metall continued under the laws of Canada by certificate and articles of continuance

January 1, 1988

Amalgamation with two wholly-owned subsidiaries by certificate and articles of amalgamation

December 31, 1990

Amalgamation with a wholly-owned subsidiary by certificate and articles of amalgamation

Inmet Mining

Our registered and head office is at 330 Bay Street, Suite 1000, Toronto, Ontario, Canada M5H 2S8. We have approximately 3,200 employees worldwide (including employees of Ok Tedi).

Share capital

Inmet Mining's articles of amalgamation provide for three classes of shares:

- common shares
- preferred shares
- subordinate voting participating shares.

Each class has an unlimited number of shares.

There are 48,281,909 common shares issued and outstanding. We have not issued any preferred shares or subordinate voting participating shares.

Common shares

Each common share gives the holder the right to:

- receive notice of and attend all meetings of shareholders, with each common share entitling the holder to five votes at a meeting of shareholders
- participate equally with the holders of subordinate voting participating shares in any:
  - dividends declared by the directors
  - distribution of assets if the company is liquidated, dissolved or wound up, after payments are made to holders of preferred shares.

Common shares cannot be subdivided, consolidated or otherwise changed unless all of the common shares and subordinate voting participating shares are also subdivided, consolidated or otherwise changed at the same time, in the same proportion and in the same manner.

Preferred shares

Preferred shares can be issued in series. The directors can fix the number, designation, rights, privileges, restrictions and conditions of the preferred shares of each series before the shares are issued.

Holders of preferred shares do not have the right to receive notices of any meetings of shareholders, or to attend them or to vote at them, unless the conditions when the preferred shares are issued state otherwise. Preferred shares can carry other rights that have been specified when the shares are issued. The holders of preferred shares can also be entitled by law to vote as a class on certain matters.

May 4, 1995

Name changed to
Inmet Mining Corporation /
Corporation Minière Inmet

January 1, 1999

Amalgamation with a wholly-owned
subsidiary by articles of amalgamation

Preferred shares rank ahead of subordinate voting participating shares and common shares when:

- dividends are paid
- assets are distributed if the company is liquidated, dissolved or wound up.

Subordinate voting participating shares

Each subordinate voting participating share gives the holder the right to:

- receive notice of and attend all meetings of shareholders
- one vote at a meeting of shareholders
- participate equally with the holders of common shares in any dividends declared by the directors, and any distribution of assets if the company is liquidated, dissolved or wound up, after payments are made to holders of preferred shares.

Subordinate voting participating shares cannot be subdivided, consolidated or otherwise changed unless all of the subordinate voting participating shares are changed in the same way, at the same time and in the same proportion.

Dividends

Inmet Mining's board of directors can declare dividends at its discretion. In November 2005, the board adopted a dividend policy that pays annual dividends of $0.20 per share to common shareholders. Under the policy, dividends of $0.10 per common share are paid on June 15 and December 15 of each year.

We believe we can maintain this level of dividend as copper prices fluctuate. Our ability to pay dividends would be restricted, however, if there is a default under our sponsor guarantee (see *Material contracts — Inmet sponsor guarantee* on page 47 for more information).

Ratings

Credit ratings assess the ability of a company to meet its financial commitment on an obligation.

None of our securities have been rated by a rating agency. If, however, they receive a rating in the future, there is no guarantee that the rating will remain in effect for an extended period. A rating can also be revised or withdrawn by the rating agency.

Investor information (cont'd)

Market for securities

Trading price and volume

Inmet Mining's common shares trade on the Toronto Stock Exchange (TSX) under the symbol *IMN*. The table below shows the range in share price and volume traded in each month of 2007.

Month	High	Low	Volume Traded
January	$ 62.85	$ 50.11	9,123,349
February	$ 62.75	$ 57.35	6,543,219
March	$ 66.00	$ 52.00	7,568,737
April	$ 68.98	$ 63.02	5,526,445
May	$ 76.51	$ 67.50	7,426,838
June	$ 85.98	$ 76.30	6,115,340
July	$ 101.16	$ 86.00	9,033,372
August	$ 93.91	$ 73.88	8,331,016
September	$ 100.93	$ 86.50	8,288,238
October	$ 111.89	$ 93.22	9,546,218
November	$ 99.00	$ 75.51	14,035,434
December	$ 93.73	$ 75.50	6,947,892

Transfer agent and registrar

CIBC Mellon Trust Company (CIBC Mellon) is our transfer agent and registrar, and maintains the register of transfers of our common shares at its main office in Toronto, Ontario.

Use of experts

We rely on experts to audit our financial statements and prepare our mineral reserve and resource estimates.

- Our consolidated financial statements for the year ended December 31, 2007 have been audited by KPMG LLP Chartered Accountants. The auditors have confirmed they are independent according to the Rules of Professional Conduct of Ontario.
- *Notes to mineral reserves and resources* table, starting on page 37, lists qualified persons, as defined by *National Instrument 43-101 — Standards of Disclosure for Mineral Projects*, and competent persons, as defined by the *Australasian Code for Reporting of Identified Mineral and Ore Reserves* (the Australasian Code) who have prepared or supervised the preparation of our mineral reserve and mineral resource estimates as at December 31, 2007.

None of these people or organizations beneficially owns (directly or indirectly), or exercises control or direction over, more than one percent of our issued and outstanding common shares.

Material contracts

Amended and restated Las Cruces project shareholders agreement

Inmet Mining and certain of its subsidiaries, together with Leucadia and MK Resources, entered into an amended and restated Las Cruces project shareholders agreement dated February 16, 2006 that gives the companies the authority to oversee the development and operation of the Las Cruces project, subject to certain protective minority rights of Leucadia.

Under the agreement, Inmet Mining and Leucadia have also committed to the development costs for the Las Cruces project and agreed to provide several guarantees of Las Cruces obligations under a credit agreement with certain lenders (see *Las Cruces credit agreement* and *Inmet sponsor guarantee* below). Once the guarantees are terminated, as specified in their terms, Leucadia has the right to offer its interest in Las Cruces to Inmet Mining, or to sell its interest to a third party that Inmet Mining finds reasonably acceptable, subject to its right of first refusal. Inmet Mining will also have the right to call for Leucadia to sell its interest in Las Cruces to it, if Leucadia's interest drops below 15 percent.

Las Cruces credit agreement

Las Cruces, as borrower, has entered into a credit agreement dated December 15, 2005 with the Canadian Imperial Bank of Commerce (CIBC) as sole lead arranger, The Bank of Nova Scotia, Societé Generale and Banco Bilbao Vizcaya Argentaria, S.A. as co-arrangers and co-syndication agents, and certain other banks and financial institutions, to finance the development of the Las Cruces mine. The credit facility consists of two tranches:

- Tranche A is a US $240 million senior secured facility that matures on December 15, 2015 and contains a US $25 million letter of credit facility.
- Tranche B is a €69 million senior secured bridge financing facility that expires on December 31, 2009 and provides financing until the government subsidies and value added taxes (VAT) for the project have been received.

Borrowing under Tranche A will be repaid in US dollars, in semi-annual payments over seven years. Repayments will begin on June 30, 2009 or six months after project completion (as defined in the agreement) whichever is earlier.

Repayments for Tranche B are due within 30 days of Las Cruces receiving subsidy payments and VAT refunds. Tranche B must be fully repaid by December 31, 2009. The agreement contains terms and provisions that are customary for a project financing, including an obligation on the part of Las Cruces to comply with certain financial ratios and other financial tests and specified positive and negative covenants.

Inmet sponsor guarantee

Inmet Mining has provided a sponsor guarantee to CIBC, dated December 15, 2006, on behalf of the lenders under the CLC credit agreement, to guarantee Las Cruces' obligations under the agreement in proportion to its indirect holding in Las Cruces. The sponsor guarantee will be in place until project completion is reached (as defined under the agreement), and until Tranche B of the agreement is repaid. At that time, the project financing will be non-recourse to Inmet Mining.

The guarantee contains customary terms and conditions including a requirement to maintain certain financial ratios. It is secured by a pledge of the assets of Inmet Mining and the shares of certain subsidiaries. These assets and shares have also been pledged to secure Inmet Mining's existing hedging facilities and will continue to be pledged, after project completion is reached (as defined under the agreement), and Tranche B of the agreement is repaid, to secure any remaining obligations under the hedging facilities.

Leucadia has also provided a sponsor guarantee for Las Cruces' obligations under the credit agreement in proportion to its indirect holding in Las Cruces.

Governance

Board of directors

Our board of directors is responsible for the stewardship of our business and affairs. Its main role is to oversee corporate performance and to make sure that management has the talent, professionalism and integrity necessary to successfully carry out our strategic plan and achieve our corporate objectives. Each of our directors hold office until our next annual meeting of shareholders, or until a successor is appointed.

Dr. Yilmaz Argüden, Ph.D., 50
Istanbul, Turkey

Independent — Director since 2005

Member of:
Compensation committee
Corporate governance and nominating committee

Owns no common shares
Holds 3,644 deferred share units

Dr. Argüden is Chairman of ARGE Consulting A.S., a management consulting firm based in Istanbul, Turkey. He is the Chairman of Rothschild Investment Bank in Turkey. He is also an Adjunct Professor of Business Strategy at the Bosphorus University and Koç University, an author of numerous books and a columnist.

He is the former Chairman of Erdemir, the largest Turkish steel company, and was also a board member of various Anadolu, Borusan, and Vestel Group companies in Turkey. Dr. Argüden was selected as a "Global Leader of Tomorrow" by the World Economic Forum in 1999. He received his Ph.D. in policy analysis from the RAND Graduate Institute. Dr. Argüden is also Chairman of the Turkish Canadian Business Council.

Dr. Argüden is also a director of Anadolu Efes, Coca-Cola Içecek, Vestel Electronics Corp., Vestel White Goods Trade and Industry A.S. and Yazicilar Holding A.S.

David R. Beatty, O.B.E., 66
Toronto, Ontario

Independent — Lead director, Director since 2003

Member of:
Compensation committee
Corporate governance and nominating committee (chair)

Owns 4,000 common shares
Holds 4,322 deferred share units

Mr. Beatty is Professor of Strategic Management and Director of the Clarkson Centre for Business Ethics and Board Effectiveness at the University of Toronto's Rotman School of Management. He is also the Managing Director of the Canadian Coalition for Good Governance.

He has gained extensive business, international and mining experience during a professional career that spans more than 30 years. He is also Honorary Consul to Canada for the Government of Papua New Guinea, and in 1993, was awarded the O.B.E.

Mr. Beatty is also a director of Bank of Montreal, First Service Corporation, and the Institute of Corporate Directors.

John C. Eby, 56
Toronto, Ontario

Independent — Director since 2005

Member of:
Audit committee
Safety, environmental and community affairs committee
Compensation committee

Owns 3,000 common shares
Holds 1,822 deferred share units

Mr. Eby is a corporate director and the past Vice-Chairman, Scotia Capital Inc., where he was responsible for overseeing the firm's mining practice.

He has over 29 years of experience with Scotiabank and its affiliates, covering corporate banking, capital markets and investment banking in a variety of sectors.

Mr. Eby is also a director of Wajax Income Fund and First Nickel Inc.

Paul E. Gagné, 61
Senneville, Quebec

Independent — Director since 1996

Member of:
Audit committee (chair)
Safety, environmental and community affairs committee (chair)

Owns 5,300 common shares
Holds 28,862 deferred share units

Mr. Gagné is a corporate director. He is the Chairman of Wajax Income Fund. From 1998 to 2002, he was a consultant to Kruger Inc. and prior to that, he was Chief Executive Officer of Avenor Inc., a pulp, paper and wood products company.

Mr. Gagné has extensive experience in the resources sector and is a Canadian chartered accountant.

Mr. Gagné is also a director of CAE Inc., Fraser Papers Inc. and Textron Inc.

Oyvind Hushovd, 58
Kristiansand, Norway

Independent — Director since 2002

Member of:
Audit committee
Safety, environmental and community affairs committee

Owns no common shares
Holds 7,752 deferred share units

Mr. Hushovd is a corporate director with considerable experience in the mining and resource sectors. Prior to February 2006 he was the non-executive Chairman, and prior to July 2005, the Chief Executive Officer, of Gabriel Resources Ltd.

From 1996 to 2002, he was President and Chief Executive Officer of Falconbridge Limited and prior to that held senior positions within that company.

Mr. Hushovd is also a director of Cameco Corporation and Ivanhoe Nickel and Platinum Ltd.

Thomas E. Mara, 62
New York, USA

Independent — Director since August 2005

Owns no common shares
Holds 1,230 deferred share units

Mr. Mara is Executive Vice-President and Treasurer of Leucadia National Corporation, and Chief Executive Officer of The FINOVA Group Inc. Before joining Leucadia in 1977, Mr. Mara was a Vice-President at United Virginia Factors Corporation.

Mr. Mara has broad U.S. and international financial experience. He received his Bachelor of Business Administration from Western Michigan University and served in the United States Army Security Agency for two years.

He is also a director of The FINOVA Group Inc.

Richard A. Ross, 50
Nobleton, Ontario

Director since 1999

Owns 50,802 common shares

Mr. Ross is Inmet's Chairman and Chief Executive Officer. He is a Canadian chartered accountant.

Mr. Ross is also President of the Canadian-Turkish Business Council, a director of St. Joseph's Health Centre, Toronto, and past Chairman of the Mining Association of Canada.

James M. Tory, Q.C., 78
Toronto, Ontario

Independent — Director since 1987

Member of:
Audit committee
Compensation committee (chair)
Corporate governance and nominating committee

Owns 22,100 common shares
Holds 27,506 deferred share units

Mr. Tory is a corporate director. Prior to 2006, he was Chair Emeritus of Torys LLP and prior to that, a partner in the firm.

He is highly regarded for his lengthy career in law, focusing on general corporate law and acting for many of Canada's leading corporations, banks and investment dealers.

He is also a director of Cognos Inc., and the chair and a trustee of Canadian Real Estate Investment Trust.

Douglas Whitehead, 61
North Vancouver, British Columbia

Independent — Director since October 2007

Member of:
Safety, environmental and community affairs committee

Owns no common shares
Holds 78 deferred share units

Mr. Whitehead is President and Chief Executive Officer of Finning International Inc.

From 1992 to 1998, he was President and Chief Executive Officer of Fletcher Challenge Canada. He previously held various management and executive positions of increasing responsibility in general management, marketing and merchandising, planning and development and human resources with Fletcher Challenge Canada and its predecessors.

Mr. Whitehead holds a Bachelor of Applied Science in Civil Engineering from the University of British Columbia and an MBA degree from the University of Western Ontario. Mr. Whitehead is a member of the Canadian Council of Chief Executives and a member of the B.C. Progress Board.

Committees

Audit committee — met 6 times in 2007
Compensation committee — met 5 times in 2007
Corporate governance and nominating committee — met 4 times in 2007
Safety, environmental and community affairs committee — met 4 times in 2007

Governance (cont'd)

Cease trade or similar order, bankruptcies, penalties or sanctions

The following directors have been involved with companies that have had a cease trade or similar order, had gone bankrupt or had penalties or sanctions:

- Early in November 2006, Mr. Gagné resigned as a director of Gemofor Inc., a small, privately held manufacturer of sawmilling equipment. In December 2006, Gemofor declared bankruptcy.
- Mr. Tory is a director of Cognos Incorporated, which was the subject of cease trade orders issued by the Ontario Securities Commission and the Autorité des Marchés Financiers in June 2006 for failing to file its audited financial statements and management's discussion and analysis for the year ended February 28, 2006. The missed filings resulted from questions raised by the U.S. Securities and Exchange Commission (SEC) about certain accounting practices related to the recognition of income. When the SEC accepted Cognos' treatment, Cognos filed the documents and the cease trade orders were revoked.
- Mr. Beatty was a director of Thistle Mining Inc. on December 21, 2004 when it announced its plans to restructure under the *Companies' Creditors Arrangement Act* (CCAA). Thistle completed its restructuring on June 30, 2005. Its common shares have been suspended from trading on the Toronto Stock Exchange since December 31, 2004 due to the restructuring. Mr. Beatty is no longer a director of Thistle.

About the audit committee

The audit committee consists of four directors:

- Paul E. Gagné (chair). Mr. Gagné is a Canadian chartered accountant and is a former Chief Executive Officer of Avenor Inc., a pulp, paper and wood products company.
- John C. Eby. Mr. Eby is a corporate director. He is a former Vice-Chairman, Scotia Capital Inc. where he was in charge of the firm's mining practice.
- Oyvind Hushovd. Mr. Hushovd is a former Chairman and Chief Executive Officer of Gabriel Resources Ltd. From 1996 to 2002, he was President and Chief Executive Officer of Falconbridge Limited and prior to that held senior positions within that company, including Chief Financial Officer.
- James M. Tory. Mr. Tory is a corporate director. During a lengthy legal career with Torys LLP, he focused on general corporate law, acting for many of Canada's leading corporations, banks and investment dealers.

Each member is independent and financially literate according to the terms of Multilateral Instrument 52-110, *Audit committees*.

The committee's main function is to assist the board by overseeing:

- the quality, integrity and appropriateness of our financial reporting
- the quality, integrity and performance of our systems of internal control for finance, accounting and ethics
- the quality, performance and independence of our external auditors
- our compliance with legal and regulatory requirements.

The audit committee receives regular reports on the following in order to fulfill its mandate:

- significant accounting transactions and financial matters that required professional judgment in arriving at the financial statements
- financial risk management
- exploration and capital spending in relation to approved budgets
- our system of internal controls.

The audit committee and the corporate governance and nominating committee review this committee's charter once a year to make sure it meets regulatory requirements and reflects best practices.

Financial reporting

The audit committee is also responsible for reviewing:

- our financial reporting procedures, internal controls and risk management practices as they relate to financial reporting
- the terms of engagement and performance of the external auditors
- our interim and annual financial statements, management's discussion and analysis of financial condition and results, and the annual report before they are reviewed and approved by the board.

The audit committee meets regularly with our external auditors without management present. It also has direct access to management in order to review specific issues.

External auditors

KPMG LLP (KPMG) is our current auditor. From time to time, KPMG and/or its affiliates also provide us and some of our subsidiaries with advisory and other non-audit services.

These professional services break down into different types of fees:

- *audit fees* for services for reviewing annual and interim financial statements and notes and for conducting the annual audit
- *audit-related fees* for services relating to KPMG's role as auditor. The fees for fiscal 2006 and 2005 relate to due diligence and the audit of our pension plan
- *non-audit (tax) fees* for services relating to tax compliance, tax advice and tax planning.

The table below shows the fees that were paid to KPMG for the fiscal years ended December 31, 2007 and 2006.

(thousands)	2007	2006
Audit fees	$ 686	$ 494
Audit-related fees	104	15
Non-audit (tax) fees	975	705
Total	$ 1,765	$ 1,214

Auditor independence

The audit committee has reviewed this list of services and determined KPMG maintained auditor independence.

The audit committee has the authority to conduct any investigation it believes is necessary to help it fulfil its responsibilities, and has direct access to the external auditors, our financial management, our officers and employees and all of our books and records. Any member of the committee can ask to retain the help of accounting, legal or other consultants or experts to carry out its duties, and these expenses would be paid by Inmet.

Approving services

The audit committee has a policy that any services to be performed by the external auditors must be pre-approved.

The audit committee must pre-approve the following:

- audit and non-audit services provided by external auditors, and the annual range of fees for each type of service
- services that are not part of the annual process
- fees that go higher than the range of fees that was pre-approved.

Management must submit a report to the audit committee each year describing in detail all services it expects the external auditors to provide in the following fiscal year. The report must also include a range of fees for each type of service.

The audit committee takes into account the ratio of fees for audit and audit-related services to non-audit services when pre-approving services and fees. It has also delegated limited authority to the committee chair to pre-approve services and fees. Any approvals the committee chair makes must be reported to and ratified by the audit committee at its next meeting.

Inmet has a policy of not engaging external auditors to provide services relating to internal audit, and the design and implementation of financial information systems.

The committee met six times in 2007.

You can find a copy of the committee charter in this AIF as Schedule 1, on pages 53–54. It is also available on our website (www.inmetmining.com) or on SEDAR (www.sedar.com).

Share ownership

Our directors and senior management as a group beneficially own (directly or indirectly), or exercise control or direction over, less than 1 percent of our issued and outstanding common shares. Mr. Mara is an officer of Leucadia which, through its wholly-owned subsidiary, MK Resources, owns approximately 11.6 percent of Inmet's issued and outstanding common shares.

Senior management and officers

Richard Ross
Nobleton, Ontario
Chairman and Chief Executive Officer
Years with Inmet: 19
Owns 50,802 common shares
Prior to February 2005, President and Chief Executive Officer, Inmet

Jochen Tilk
Toronto, Ontario
President and Chief Operating Officer
Years with Inmet: 20
Owns 26,315 common shares
Prior to February 2005, Executive Vice-President and Chief Operating Officer, Inmet
Prior to August 2003, Executive Vice-President, Inmet

Steven Astritis
Toronto, Ontario
Vice-President, General Counsel and Secretary
Years with Inmet: 7
Owns 12,029 common shares

D. James Slattery
Oakville, Ontario
Vice-President, Finance and Chief Financial Officer
Years with Inmet: 2
Owns 9,403 common shares
Prior to June 2005, Chief Financial Officer, Canadian General — Tower Limited

Frank Balint
Toronto, Ontario
Vice-President, Corporate Development
Years with Inmet: 30
Owns 8,275 common shares

Lynda Beesley
Toronto, Ontario
Assistant Corporate Secretary
Years with Inmet: 1
Owns no common shares
Prior to September 2006, Assistant Corporate Secretary of Falconbridge Limited and Noranda Inc.
Prior to November 2004, law clerk, Ogilvy Renault LLP
Prior to June 2003, law clerk, Aird & Berlis LLP

Craig Ford
Oakville, Ontario
Vice-President, Safety, Environmental and Community Affairs
Years with Inmet: 8
Owns 8,159 common shares
Prior to January 2005, Director, Safety, Environmental and Community Affairs, Inmet

Scott Herr
Oakville, Ontario
Vice-President, Mining
Years with Inmet: 2
Owns 2,896 common shares
Prior to January 2007, Director, Mining, Inmet
Prior to January 2006, Consultant, McIntosh Engineering Ltd.
Prior to January 2004, self-employed consultant
Prior to August 2003, Operations Superintendent, Barrick Gold Corporation

Wendy Kaufman
Oakville, Ontario
Vice-President, Controller
Years with Inmet: 14
Owns 6,662 common shares
Prior to February 2005, Controller, Inmet

Sunny Lowe
Toronto, Ontario
Director, Global Taxation and Compliance
Years with Inmet: 2
Owns 1,091 common shares
Prior to May 2007, Director, Business Systems and Controls, Inmet
Prior to December 2005, Senior manager, B.C. Hydro

Ian Pirie
Oakville, Ontario
Vice-President, Projects
Years with Inmet: 28
Owns 6,744 common shares
Prior to May 2005, Director, Corporate Development, Inmet

Zeki Sayilir
Ankara, Turkey
Director, Marketing
Years with Inmet: 14
Owns 1,043 common shares
Prior to May 2006, Marketing and Sales Manager, Çayeli

Cheryl Smith
Toronto, Ontario
Director, Human Resources
Years with Inmet: 8
Owns 2,121 common shares
Prior to July 2004, Manager, Human Resources, Inmet

Stuart Tevendale
Whitby, Ontario
Director of Finance, Operations Controller
Years with Inmet: 14
Owns 1,764 common shares
Prior to September 2005, Treasurer, Inmet
Prior to August 2003, Commercial and Finance Manager, Çayeli

Josh Truyens
Toronto, Ontario
Director of Finance, Financial Controller
Years with Inmet: <1
Owns no common shares
Prior to January 2008, Manager, Financial Reporting, Inmet
Prior to June 2007, Manager, Ernst & Young
Prior to October 2004, Senior Staff Accountant, Ernst & Young

Schedule 1

Inmet Mining Audit Committee Charter

I. Purpose

The function of the Audit Committee is to assist the Board of Directors in its oversight of the quality of the Corporation's financial reporting and public disclosure of financial information, the performance and integrity of the related systems of internal and disclosure controls, compliance with legal and regulatory reporting requirements applicable to financial reporting and public disclosure of financial information and the performance and independence of the external auditors.

The Audit Committee may conduct any investigation appropriate to fulfilling its function and have direct access to the independent auditors, any officer or employee of the Corporation and all books and records of the Corporation. At the request of any Audit Committee member, the Audit Committee may retain, at the Corporation's expense, accounting, legal or other advisors or experts it deems necessary to perform its duties.

II. Composition

The Audit Committee shall have a minimum of three members. All of its members shall be "independent" as determined under the Board's annual assessment of the independence of its members and "financially literate", in each case as defined under any requirements of the Canadian Securities Administrators or other securities regulatory authorities to which the Corporation is subject.

III. Meetings

The Committee shall meet at least five times annually, or more frequently as circumstances dictate.

The Audit Committee Chair will approve an agenda in advance of each meeting and will cause minutes of meetings to be maintained. The Chairman will regularly report to the Board of Directors on the results of the Committee's deliberations.

IV. Responsibilities and Duties

To fulfill its responsibilities and duties the Audit Committee shall:

Financial Reporting

1. Review the principal risks affecting the Corporation's financial reporting and oversee appropriate systems to identify, evaluate and manage such risks.
2. Review the Corporation's public disclosure of financial information, including annual and interim financial statements, management's discussion and analysis (MD&A) and annual and interim earnings releases, prior to filing with regulatory authorities or public dissemination and make recommendations to the Board for approval of same.

   Such review shall address:

   (a) Appropriate application of GAAP as well as the underlying estimates, judgments and consideration of alternative treatment and presentation.

   (b) Clarity, accuracy and completeness of public disclosure.

   (c) Application of the Disclosure Committee process.
3. Verify that the Corporation has appropriate procedures and policies in the areas of financial reporting, disclosure and internal controls, including for the review of the Corporation's public disclosure of financial information derived from the Corporation's financial statements and periodically assess the adequacy of such procedures and policies.
4. Review the annual audited financial statements of the Corporation's employee pension plans prior to filing with regulatory authorities and make recommendations to the Board for approval of same.

Independent Auditors

5. The Audit Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting.
6. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors and their compensation or approve any discharge of auditors where circumstances warrant.
7. Review and approve the independent auditors' audit plan and engagement letter. Discuss and approve audit scope, staffing, locations, reliance upon management and general audit approach. Ensure the auditor's assessment of risks associated with financial reporting is consistent with that prepared by management.
8. Review the results of the audit with the auditors.
9. Review quarterly earnings reports with the auditor prior to public release.
10. Approve the audit fees and other significant compensation to be paid to the independent auditors.
11. At each Audit Committee meeting, consult with the independent auditors in the absence of management on internal controls and the fullness, appropriateness and accuracy of the Corporation's annual financial statements including any disagreements.

Schedule 1 (cont'd)

12. The Audit Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditors. In this regard, the Chairman is authorized to pre-approve non-audit services provided such pre-approval is presented to the Audit Committee at its first scheduled meeting thereafter.

Internal Controls and Compliance

13. Review and assess reports prepared or caused to be prepared by management regarding internal controls, financial risk management and insurance programs.
14. On at least a quarterly basis, review with the Corporation's counsel any legal matters that could have a significant impact on the Corporation's annual financial statements, the Corporation's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
15. Establish procedures for:

    (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting or auditing matters; and

    (b) the confidential, anonymous submission by employees of the Corporation or its subsidiaries of concerns regarding questionable accounting or auditing matters.
16. Review management's reports on related party transactions.
17. Review annually the framework of internal controls, how these align with the objective of preventing and detecting fraud as well as management's assessment of the continued effectiveness and application of those internal controls.
18. Review at least annually management's report on executive travel and other expenses.
19. Review at least annually management's report on the Corporation's source deductions and other remittances required under applicable tax legislation.

Other Responsibilities

20. Periodically review and discuss with management and the independent auditors the significance of emerging regulatory and accounting standards and initiatives for the financial reporting of the Corporation.
21. Review and reassess the adequacy of this Charter at least annually and make recommendations to the Corporate Governance and Nominating Committee as well as to the Board of Directors for approval.
22. Annually assess the effectiveness of the Committee against its Charter and report the results of the assessment to the Corporate Governance and Nominating Committee as well as to the Board.
23. Review disclosure of a summary of this Charter to shareholders.
24. Perform any other activities consistent with this Charter, the Corporation's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.
25. At each audit committee meeting, meet with management in the absence of the independent auditors.
26. Periodically review financial and accounting personnel succession planning within the Corporation and its major subsidiaries.
27. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditors of the Corporation.

The Committee's role, as described in this Charter, is an important part of monitoring the quality and integrity of the Corporation's financial reporting. This role does not replace the responsibility of the Corporation's management for the preparation and presentation of financial statements in accordance with generally accepted accounting principles, for significant accounting estimates and judgements, or for ensuring compliance by the Corporation with applicable laws relating to financial reporting. Nor does the role of the Committee detract from the responsibility of the auditors to plan and conduct an audit in accordance with Canadian generally accepted auditing standards or from the fact that the independent auditors are ultimately accountable to the Board of Directors and the Committee, as representatives of the shareholders of the Corporation.

This Charter establishes guidelines, rather than inflexible rules, and the Committee will adopt such additional procedures and standards from time to time as it deems appropriate to help fulfill its responsibilities. Nothing in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for directors of the Corporation.

This Charter has been adopted by the Audit Committee of the Corporation, and approved by the Board, with effect as of February 13, 2007.

Section 3

Management's discussion and analysis

Inmet Mining Corporation
March 10, 2008

The MD&A discusses our performance, our financial condition and our future prospects

Where to find it

About this document

Throughout this MD&A, the terms *we, us, our* and *Inmet* mean Inmet Mining Corporation and its subsidiaries and joint ventures. *Inmet Mining* means Inmet Mining Corporation only. All information in this MD&A is as of March 10, 2008 unless otherwise indicated. All currency amounts are in Canadian dollars unless otherwise indicated.

Our principal subsidiaries and joint ventures include:

	Jurisdiction	Ownership (%)
Çayeli Bakir Isletmeleri A.S. (Çayeli)	Turkey	100
Pyhäsalmi Mine Oy (Pyhäsalmi)	Finland	100
Troilus (division of Inmet Mining)	Canada	100
Ok Tedi Mining Limited (Ok Tedi)	Papua New Guinea	18
Cobre Las Cruces (Las Cruces)	Spain	70
Artvin Bakir Madencilik Isletmeleri A.S. (Cerattepe)	Turkey	100
Minera Petaquilla S.A. (Petaquilla)	Panama	48

Forward-looking information

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This MD&A contains statements about our business, results of operation and future financial condition.

These statements are "forward-looking" because we have used what we know and expect today to make a statement about the future. Forward-looking statements usually include words like *may, expect, anticipate, believe* or other similar words. We believe the expectations reflected in these forward-looking statements are reasonable. Actual events and results could be substantially different, however, because of the risks and uncertainties associated with our business or events that happen after the date of this MD&A.

You should not place undue reliance on forward-looking statements. As a general policy, we do not update forward-looking statements except if there is an offering document or where securities legislation requires us to do so.

INMET
MINING

Other documents you can ask for

Additional financial information is available in our financial statements. You can ask us for our most recent annual information form (AIF), annual and interim financial statements, and management proxy circular at no charge.

Accessing documents online
This annual review (AIF, MD&A, financial statements) our management proxy circular and other documents are also available on our website at www.inmetmining.com or on SEDAR at www.sedar.com.

Financial review

(millions, except per share amounts)		2007		2006	Change
1. Earnings from operations					
Gross sales	$	1,104	$	1,088	+1%
Smelter processing charges and freight		(206)		(241)	-15%
Cost of sales:					
Direct production costs		(296)		(280)	+6%
Finished goods inventory changes		(3)		3	-200%
Provisions for mine rehabilitation and other non-cash charges		(10)		(8)	+25%
Depreciation		(36)		(34)	+6%
		553		528	+ 5%
2. Spending on development and exploration					
Corporate development and exploration		(9)		(10)	-10%
3. Corporate costs					
General and administration		(20)		(14)	+43%
Investment and other income		36		48	-25%
Interest expense		(1)		(1)	–
Income and capital taxes		(141)		(130)	+8%
		(126)		(97)	+30%
Net income	$	418	$	421	-1%
Basic net income per common share	$	8.65	$	8.73	-1%
Diluted net income per common share	$	8.64	$	8.71	-1%

Disclosure controls

We have controls and procedures in place to make sure that all important information about Inmet, including our operating and financial activities, is communicated fully, accurately and in a timely way. We believe these controls are effective, which gives us reasonable assurance that all material information about Inmet has been included in this report.

Internal controls over financial reporting

We have controls and procedures in place which give us reasonable assurance that the financial reporting is accurate and that the financial statements were prepared in accordance with Canadian generally accepted accounting principles. For the period October to December 2007 we have not made any material changes to our controls over financial reporting.

Financial review by operation

We analyze our earnings from operations to understand:

- the impact of metal prices on our performance (determined by the prices in Canadian dollars we received on the sale of metal)
- how we are growing (determined by sales volumes, a direct result of production)
- how well we are managing costs (determined by looking at how much is driven by external factors such as foreign exchange and demand, and how much is driven by internal factors where we have more control).

We do this on a consolidated and segmented basis.

The following table shows the items that had a significant impact on our earnings.

	2007	2006
Metal prices		
Copper (per pound)	US $ 3.22	US $ 3.21
Zinc (per pound)	US $ 1.39	US $ 1.54
Gold (per ounce)	US $ 594	US $ 514
Treatment charges		
Copper (per dry metric tonne of concentrate)	US $ 60	US $ 88
Zinc (per dry metric tonne of concentrate) [1]	US $ 258	US $ 110
Price participation		
Copper (per pound)	US $ 0.07	US $ 0.14
Zinc (per pound) [1]	US $ 0.01	US $ 0.25
Freight charges		
Copper (per dry metric tonne of concentrate)	US $ 44	US $ 42
Zinc (per dry metric tonne of concentrate)	US $ 29	US $ 16
Statutory tax rates		
Çayeli	27%	20%
Pyhäsalmi	26%	26%
Ok Tedi	37%	37%
Average annual exchange rates		
1 US $ to C$	$ 1.07	$ 1.13
1 euro to C$	$ 1.46	$ 1.42

1. Zinc treatment charges are based on a zinc price of US $3,500 per tonne in 2007 and US $1,400 per tonne in 2006.

The following table shows you the effect some of these key variables could have on our net income, based on our objectives for 2008 and changing only one variable at a time.

Sensitivity Analysis:

(millions)	A change of:	Would change our 2008 net income by:	Would change our 2008 earnings per share by:
Metal prices			
Copper (per pound)	US $0.30	$44 million	$0.90
Zinc (per pound)	US $0.10	$8 million	$0.16
Gold (per ounce)[1]	US $100	$17 million	$0.35
Exchange rates			
Canadian dollar per US dollar	C $0.10	$56 million	$1.17
Canadian dollar per euro	C $0.10	$5 million	$0.11
Treatment and refining charges			
Copper treatment charge per tonne and copper refining charge per pound	US $10/tonne US $0.10/pound	$4 million	$0.08
Zinc treatment charge per tonne	US $10/tonne	$1 million	$0.02
Freight and fuel costs			
Concentrate freight per tonne	10%	$3 million	$0.07
Fuel price per litre	$0.10	$4 million	$0.08
Electricity (kilowatt hour)	$0.01	$5 million	$0.09

1. Calculations include hedging in place at December 31, 2007.

Summary of earnings from operation

The table below shows our earnings from operations on a segmented basis.

(millions)	2007	2006	Change
Earnings from operations			
Çayeli	$ 224	$ 192	+17%
Pyhäsalmi	138	140	-1%
Troilus	10	6	+67%
Ok Tedi	183	192	-5%
Provisions for mine rehabilitation at closed sites	(2)	(2)	–
	$ 553	$ 528	+ 5%

Çayeli financial review

Higher sales volumes increase operating earnings and cash flow

(millions of Canadian dollars unless otherwise stated)	2007	2006
Sales analysis		
Copper sales (tonnes)	33,600	29,300
Zinc sales (tonnes)	48,200	34,500
Gross copper sales	$ 253	$ 238
Gross zinc sales	155	126
Other metal sales	11	7
Gross sales	419	371
Smelter processing charges and freight	(95)	(100)
Net sales	$ 324	$ 271
Cost analysis		
Tonnes of ore milled (thousands)	1,047	933
Direct production costs (per tonne)	$ 83	$ 78
Direct costs of production	$ 87	$ 73
Change in inventory	1	(4)
Depreciation and other non-cash costs	12	10
Operating costs	$ 100	$ 79
Operating earnings	$ 224	$ 192
Operating cash flow	$ 215	$ 173

The table below shows what contributed to the change in operating earnings and operating cash flow between 2007 and 2006.

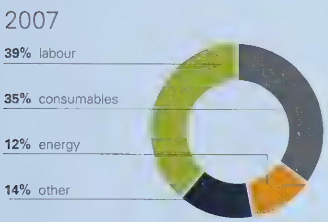
(millions)	Change
Lower metal prices, denominated in Canadian dollars	$ (37)
Higher sales volumes from higher production	43
Lower smelter processing charges and freight	34
Higher operating costs (higher labour and consumable costs)	(7)
Other	(1)
Increase in operating earnings compared to 2006	$ 32
Increased tax expense because of higher earnings	(8)
Changes in working capital	14
Other	4
Increase in operating cash flow compared to 2006	$ 42

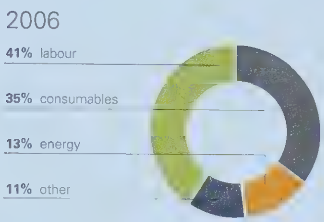
Operating costs in 2007 were higher compared to 2006. The increased costs were due to the weakening of the US dollar on Turkish lira based costs as well as increased inflationary pressures on labour and electricity costs in Turkey. The cost of commodity-based consumables, like grinding media and process chemicals, also increased. The change in working capital is from lower accounts receivable mainly because of the lower price used to value year end receivables.

Direct production costs

The following charts show the breakdown of 2007 production costs compared to 2006, and the reasons for the increase between years.

Distribution of direct production costs
2007 vs. 2006





Increase in cost per tonne of ore milled

2006 cost	$	78
Labour		6
Consumables		6
Volume		(6)
Royalties		(1)
2007 cost	$	83

2008 outlook for operating earnings and operating cash flow

We expect Çayeli's sales to be in line with its production estimates of 33,600 tonnes of copper and 47,800 tonnes of zinc. We do not expect the pressure on operating costs to continue in 2008. Copper smelter processing charges and freight should go down while zinc charges are likely to increase. We expect to sell about 20 percent of our concentrates on the spot market.

The following shows you the effect key variables could have on Çayeli's 2008 net income.

Sensitivity analysis:

		A change of:	Would change Çayeli's operating earnings by:	Would change Çayeli's net income by:
Metal prices	• Copper (per pound)	US $0.30	$20 million	$15 million
	• Zinc (per pound)	US $0.10	$6 million	$4 million
Exchange rates	• Turkish lira per US dollar	10 percent	$4 million	$3 million
Costs	• Fuel (per litre)	$0.10	$0.3 million	$0.2 million
	• Electricity (kilowatt hour)	$0.01	$1.1 million	$0.8 million
	• Copper treatment and refining cost	US $10/tonne US $0.10/pound	$2 million	$2 million
	• Zinc treatment cost	US $10/tonne	$1 million	$1 million

The shaft extension project was completed

Çayeli spent $18 million in 2007 on mine development and equipment replacements, including $7 million to complete the shaft extension project.

Capital spending in 2006 was $15 million for capital projects that included the shaft development project and development of the footwall ramp, ore passes, ventilation raise, lateral development and other shaft-related work. There were also capital expenditures to replace mine mobile equipment.

(millions)	*2008 objective*	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Capital spending	*$ 23*	$ 18	$ 17	$ 15	+ 6%	+ 20%

2008 outlook for capital spending

Çayeli expects to spend $23 million in 2008 on a water filtration plant, ventilation raise, mine equipment and other equipment replacements.

Pyhäsalmi financial review

Operating earnings similar to last year

(millions of Canadian dollars unless otherwise stated)		2007		2006
Sales analysis				
Copper sales (tonnes)		14,000		13,500
Zinc sales (tonnes)		38,900		35,500
Pyrite sales (tonnes)		509,000		495,000
Gross copper sales	$	105	$	103
Gross zinc sales		125		140
Other metal sales		30		31
Gross sales		260		274
Smelter processing charges and freight		(62)		(76)
Net sales	$	198	$	198
Cost analysis				
Tonnes of ore milled (thousands)		1,377		1,372
Direct production costs (per tonne)	$	36	$	35
Direct costs of production	$	50	$	48
Change in inventory		(1)		1
Depreciation and other non-cash costs		11		9
Operating costs	$	60	$	58
Operating earnings	$	138	$	140
Operating cash flow	$	109	$	109

The table below shows what contributed to the change in operating earnings and operating cash flow between 2007 and 2006.

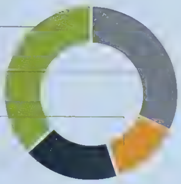
(millions)		Change
Lower metal prices, denominated in Canadian dollars	$	(31)
Higher sales volumes from higher production		12
Lower smelter processing charges and freight		20
Impact of the Canadian dollar on translated operating costs		(2)
Other		(1)
Decrease in operating earnings, compared to 2006	$	(2)
Decreased tax expense		1
Other		1
Consistent operating cash flow, compared to 2006		–

Direct production costs

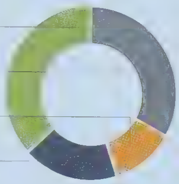
The following charts show the breakdown of 2007 production costs compared to 2006, and the reasons for the increase between years.

Distribution of direct production costs
2007 vs. 2006

2007



2006



Increase in cost per tonne of ore milled

2006 cost	$	35
Labour		1
2007 cost	$	36

2008 outlook for operating earnings and operating cash flow

We expect Pyhäsalmi's sales to be consistent with its production estimates of 13,000 tonnes of copper and 30,900 tonnes of zinc, and do not expect any change in costs of production. Copper smelter processing charges and freight should go down while zinc charges are likely to increase. Pyhäsalmi sells all of its concentrates under long-term contracts.

The following shows you the effect key variables could have on Pyhäsalmi's 2008 net income.

Sensitivity analysis:

		A change of:	Would change Pyhäsalmi's operating earnings by:	Would change Pyhäsalmi's net income by:
Metal prices	• Copper (per pound)	US $0.30	$8 million	$6 million
	• Zinc (per pound)	US $0.10	$4 million	$3 million
Exchange rates	• Canadian dollar per euro	$0.10	$4 million	$3 million
Costs	• Fuel (per litre)	$0.10	<$0.1 million	<$0.1 million
	• Electricity (kilowatt hour)	$0.01	$1 million	$1 million
	• Copper treatment and	US $10/tonne	<$1 million	<$1 million
	refining cost	US $0.10/pound		
	• Zinc treatment cost	US $10/ tonne	<$1 million	<$1 million

Capital spending delayed until 2008

Pyhäsalmi spent $3 million on sustaining capital in 2007. Replacing certain mill equipment, which was expected to take place in the year, has been deferred to 2008.

Capital spending in 2006 was $6 million for mill improvements that included replacing the zinc pressure filter, pyrite concentrate conveyor, mobile equipment, and for sustaining capital.

(millions)	*2008 objective*	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Capital spending	*$ 12*	$ 3	$ 10	$ 6	- 70%	- 50%

2008 outlook for capital spending

Pyhäsalmi expects to spend $12 million in 2008 mainly for mine and mill equipment. In addition the replacement of certain mill equipment expected to have been spent in 2007 should be spent in 2008.

Troilus financial review

Higher gold prices and lower treatment charges increase earnings

(millions of Canadian dollars unless otherwise stated)	2007	2006
Sales analysis		
Gold sales (ounces)	142,200	144,100
Copper sales (tonnes)	2,900	2,900
Gross gold sales	$ 85	$ 78
Gross copper sales	21	24
Other metal sales	2	2
Gross sales	108	104
Smelter processing charges and freight	(8)	(11)
Net sales	$ 100	$ 93
Cost analysis		
Tonnes of ore milled (thousands)	6,000	6,500
Direct production costs (per tonne)	$ 13	$ 12
Direct costs of production	$ 78	$ 77
Change in inventory	1	(2)
Depreciation and other non-cash costs	11	12
Operating costs	$ 90	$ 87
Operating earnings	$ 10	$ 6
Operating cash flow	$ 15	$ 17

The table below shows what contributed to the change in operating earnings and operating cash flow between 2007 and 2006.

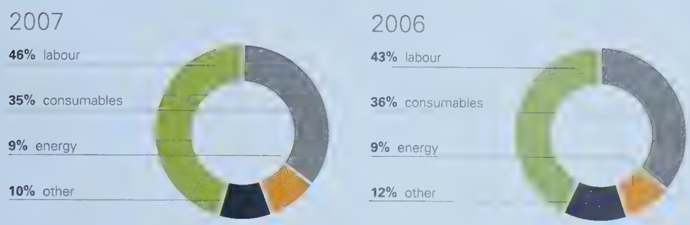
(millions)	Change
Higher metal prices, denominated in Canadian dollars	$ 5
Lower smelter processing charges and freight	3
Higher operating costs	(4)
Increase in operating earnings, compared to 2006	**$ 4**
Change in working capital	(5)
Other	(1)
Decrease in operating cash flow, compared to 2006	**$ (2)**

The change in working capital is mainly a result of higher accounts receivable. The increase is because of new payment terms with a new smelter which began in 2007, and higher gold prices.

Direct production costs

The following charts show the breakdown of 2007 production costs compared to 2006, and the reasons for the increase between years.

Distribution of direct production costs
2007 vs. 2006



Increase in cost per tonne of ore milled

2006 cost	$	12
Labour		1
2007 cost	$	13

2008 outlook for operating earnings and operating cash flow

We expect Troilus' sales to be consistent with its production estimates of 163,200 ounces of gold and 7,000 tonnes of copper. There should be a modest increase in production costs because of the cost to maintain our work force to the end of the mine life. Smelter processing charges should be higher because of the higher copper content expected in 2008. Troilus sells all of its concentrates under long-term contracts.

We have increased our obligation for mine rehabilitation, which is scheduled to start in 2009, and will accrue the additional expenses over the next two years. We will also start accruing termination costs in 2008 for employees we expect to remain with the mine until the end of its life. These two items together will add approximately $4 million to costs in 2008.

The following shows you the effect key variables could have on Troilus' 2008 net income.

Sensitivity analysis:

		A change of:	Would change Troilus' operating earnings and net income by:
Metal prices	• Gold (per ounce) • Copper (per pound)	US $100 US$ 0.30	$10 million $4 million
Exchange rates	• Canadian dollar per US dollar	$0.10	$14 million
Costs	• Fuel (per litre) • Electricity (kilowatt hour) • Copper treatment and refining cost	$0.10 $0.01 US $10/tonne US $0.10/pound	$1 million $2 million <$1 million

Spending on sustaining capital

Troilus spent $2 million in 2007 on some mill improvements designed to improve throughput volumes and metal recoveries, and a tailings dam lift. In 2006, it spent $2 million on capital for a tailings dam lift and a pumping system.

(millions)	*2008 objective*	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Capital spending	*$ 1*	$ 2	$ 3	$ 2	- 33%	–

Ok Tedi financial review

Lower smelter processing charges help mitigate the impact of lower copper prices

(millions of Canadian dollars unless otherwise stated)		2007		2006
Sales analysis at 18%				
Copper sales (tonnes)		32,500		33,600
Gold sales (ounces)		92,000		97,700
Gross copper sales	$	248	$	273
Gross gold sales		65		64
Other metal sales		3		3
Gross sales		316		340
Smelter processing charges and freight		(41)		(55)
Net sales	$	275	$	285
Cost analysis at 18%				
Tonnes of ore milled		4,640		4,960
Direct production costs (per tonne)	$	18	$	17
Direct costs of production	$	81	$	83
Change in inventory		2		2
Depreciation and other non-cash costs		9		8
Operating costs	$	92	$	93
Operating earnings	$	183	$	192
Operating cash flow	$	98	$	151

The table below shows what contributed to the change in operating earnings and operating cash flow between 2007 and 2006.

(millions)		Change
Lower metal prices, denominated in Canadian dollars	$	(10)
Lower sales volumes		(8)
Lower smelter processing charges and freight		12
Lower variable compensation because of lower operating cash flow		4
Higher operating costs		(7)
Decrease in operating earnings, compared to 2006	**$**	**(9)**
Decreased tax expense because of lower earnings		3
Change in working capital		(47)
Decrease in operating cash flow, compared to 2006	**$**	**(53)**

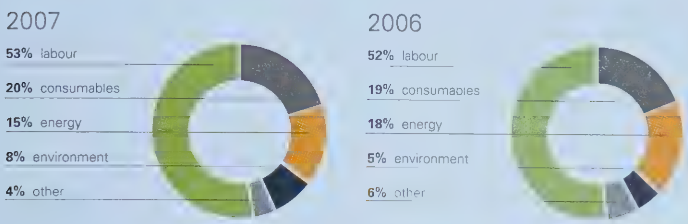
Operating costs at Ok Tedi were higher in 2007 compared to 2006. Most of the increase was related to the exchange rate of the Australian dollar against the US dollar (Ok Tedi's functional currency), higher compensation payments to the communities and the effects of inflation on costs.

The change in working capital was a result of higher accounts receivable balances because Ok Tedi shipped more ore in the fourth quarter of 2007 compared to 2006, and because it paid higher tax instalments than in 2006.

Direct production costs

The following charts show the breakdown of 2007 production costs compared to 2006, and the reasons for the increase between years.

Distribution of direct production costs
2007 vs. 2006



Increase in cost per tonne of ore milled

2006 cost	$	17
Labour		1
Environmental compensation		3
Energy		(2)
Variable employee compensation		(1)
2007 cost	$	18

2008 outlook for operating earnings and operating cash flow

We expect our 18 percent of Ok Tedi's sales to be consistent with its production estimates of 31,300 tonnes of copper and 121,300 ounces of gold. Costs of production should increase because of the costs related to the mine waste management system. Smelter processing charges should be lower because of market rate assumptions. Ok Tedi estimates selling almost 100 percent of its concentrate under long-term contracts.

The following shows you the effect key variables could have on Ok Tedi's 2008 net income.

Sensitivity analysis:

		A change of:	Would change our 18 percent share of Ok Tedi's operating earnings by:	Would change our 18 percent share of Ok Tedi's net income by:
Metal prices	• Copper (per pound)	US $0.30	$19 million	$12 million
	• Gold (per ounce)	US $100	$11 million	$7 million
Exchange rates	• Papua New Guinea kina per US dollar	US $0.05	$1 million	< $1 million
	• Australian dollar per US dollar	US $0.05	$1 million	< $1 million
Costs	• Fuel (per litre)	$0.10	$2 million	$1 million
	• Electricity (kilowatt hour)	$0.01	$2 million	$1 million
	• Copper treatment and refining cost	US $10/tonne US $0.10/pound	$2 million	$1 million

Significant capital spending continues in 2008

Ok Tedi spent $175 million (our 18 percent share was $32 million) in 2007 mainly on the mine waste management program, truck re-fleeting and other sustaining capital.

(millions)	*2008 objective*	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Capital spending at 18%	*$ 23*	$ 32	$ 41	$ 11	- 22%	+ 191%

2008 outlook for capital spending

Ok Tedi plans to spend $130 million (our 18 percent share is $23 million) in 2008. Of the $130 million, it will spend an estimated $43 million on the mine waste management program, $27 million for the pit drainage tunnel, and the rest for mine equipment and other sustaining capital.

Las Cruces financial review

2008 outlook for operating earnings and operating cash flow

Las Cruces was in development during 2007. It did not produce any material for sale so there are no earnings to report for 2007.

In 2008, we expect to ship 18,500 tonnes of copper directly to smelters over a five month period starting in May. In the fourth quarter, we expect to produce 8,500 tonnes of copper cathode and sell approximately 6,000 tonnes before the end of the year.

The following shows you the effect key variables could have on Las Cruces' 2008 net income.

Sensitivity analysis:

		A change of:	Would change Las Cruces' operating earnings by:	Would change our 70 percent share of Las Cruces' net income by:
Metal prices	• Copper (per pound)	US $0.30	$10 million	$7 million
Exchange rates	• Canadian dollar per euro	$0.10	$3 million	$2 million
Costs	• Fuel (per litre)	$0.10	$2 million	$1 million
	• Electricity (kilowatt hour)	$0.01	$2 million	$1 million
	• Copper treatment and refining cost for direct shipping ore	US $10/tonne US $0.10/pound	$2 million	$1 million

Capital spending behind schedule

In 2007, Las Cruces spent $297 million mainly on mine development and construction of the processing plant. This was 30 percent less than we had planned because there were delays in the construction of the processing plant.

(millions and %)	*2008 objective*	2007 results	*2007 target*	2006 results	Change (target to 2007)	Change (2006 to 2007)
Capital	*$ 270*	$ 301	$ 362	$ 97		
Interest	*9*	13	13	4		
Working capital	*63*	(31)	34	(8)		
Total capital spending	*$ 342*	$ 283	$ 409	$ 93	-31%	+ 204%

Outlook for capital spending

Las Cruces plans to spend $253 million in 2008 to complete the construction of the project. In addition to the project construction capital Las Cruces will spend a further $17 million in sustaining capital expenditures in 2008.

Consolidated financial review

1. Consolidated earnings from operations

Earnings from operations higher than 2006 despite lower metal prices

(millions)		Change	see page
Earnings from operations			
Sales			
Lower metal prices denominated in Canadian dollars	$	(73)	70
Higher sales volumes		47	70
Costs			
Lower smelter processing charges and freight		69	72
Lower royalties and compensation (because of lower earnings)		5	74
Higher operating costs		(20)	74
Other		(3)	–
Increase in earnings from operations, compared to 2006	**$**	**25**	

Gross sales the same as 2006 because of higher volumes sold

The Canadian dollar price we received on the sale of copper and zinc was lower in 2007 than 2006. 2007 gross sales were marginally higher than last year because of higher sales volumes.

(millions)		2007		2006	Change
Gross sales by operation					
Çayeli	$	419	$	371	+13%
Pyhäsalmi		260		274	-5%
Troilus		108		104	+4%
Ok Tedi [1]		317		339	-6%
	$	1,104	$	1,088	+ 1%
Gross sales by metal					
Copper	$	628	$	638	-2%
Zinc		281		266	+6%
Gold		150		142	+6%
Other		45		42	+7%
	$	1,104	$	1,088	+ 1%

1. Our 18 percent share of Ok Tedi's sales.

The table below shows the effect metal prices and sales volumes had on gross sales.

(millions)		Change
Lower copper prices, denominated in Canadian dollars	$	(40)
Lower zinc prices, denominated in Canadian dollars		(49)
Higher gold prices and other metal prices, denominated in Canadian dollars		16
Higher sales volumes		89
Increase in gross sales, compared to 2006	**$**	**16**

Consolidated financial review (cont'd)

Lower metal prices

The table below shows the metal prices, in US dollars and Canadian dollars, and the foreign exchange rates we realized in 2007 and 2006. The gold price we ultimately realized was affected by hedging at Troilus and Ok Tedi.

	2007	2006	2007	2006	C $ change
Copper (per pound)	US $ 3.22	US $ 3.21	C $ 3.45	C $ 3.64	- 5%
Zinc (per pound)	US $ 1.39	US $ 1.54	C $ 1.49	C $ 1.75	- 15%
Gold (per ounce)	US $ 594	US $ 514	C $ 636	C $ 581	+ 9%
1 US $ to C $	$ 1.07	$ 1.13			

We record sales using the metal price on sales settled during the reporting period. For sales that have not been settled, we use an estimate based on the month we expect the sale to settle and the commodity's forward price at the end of the reporting period. We recognize the difference between our estimate and the final price by adjusting our gross sales in the period when we settle the sale (finalization adjustment).

At December 31, 2007, unsettled sales included 36 million pounds of copper provisionally priced (before finalization adjustments) at US $3.02 per pound, and 16 million pounds of zinc provisionally priced at US $1.07 per pound. The finalization adjustment we record in the first quarter of 2008 will depend on the actual price we receive on final settlement.

For every US $0.10 decline in price per pound of copper and zinc at the time of settlement, we would expect a negative finalization adjustment of approximately:

- $4 million to gross sales and $2 million to net income with respect to copper
- $2 million to gross sales and $1 million to net income with respect to zinc.

Higher copper and zinc sales volumes

We record sales using the volume of contained metal sold. The metal content that the smelters lose during the smelting and refining process is included in smelter processing charges and freight.

The table below shows our 2007 sales volumes by metal compared to 2006.

	2007	2006	Change
Copper (tonnes)[1]	82,900	79,300	+5%
Zinc (tonnes)	87,200	70,000	+25%
Gold (ounces)[1]	234,200	241,900	-3%

1. Includes our 18 percent share of Ok Tedi's sales volumes.

Our sales volumes are directly affected by the amount of ore produced by our mines, and our ability to ship it out to our customers.

Production

Inmet's share[1]	*2008 objective*	2007 results	2007 target	2006 results	Change (target to 2007)	Change (2006 to 2007)
Copper (tonnes)						
Ok Tedi	*31,300*	30,400	33,800	35,000		
Çayeli	*33,600*	32,500	33,200	30,400		
Pyhäsalmi	*13,000*	13,600	12,900	13,000		
Las Cruces	*18,900*	–	–	–		
Troilus	*7,000*	2,800	3,300	2,900		
	103,800	79,300	83,200	81,300	- 5%	- 2%
Zinc (tonnes)						
Çayeli	*47,800*	46,200	48,600	38,700		
Pyhäsalmi	*30,900*	38,900	38,400	35,700		
	78,700	85,100	87,000	74,400	- 2%	+ 14%
Gold (ounces)						
Troilus	*163,200*	138,400	157,900	147,900		
Ok Tedi	*121,300*	84,900	91,200	99,000		
	284,500	223,300	249,100	246,900	- 10%	- 10%
Pyrite (tonnes)						
Pyhäsalmi	*505,000*	486,000	537,000	512,000	- 9%	- 5%

1. Inmet's share represents 100 percent for Çayeli, Pyhäsalmi and Troilus, 18 percent for Ok Tedi and 70 percent for Las Cruces.

Copper production in 2007 was slightly lower than 2006 and our target. This was mainly because of lower production at Ok Tedi because of the high fluorine content in the ore.

Zinc production was moderately below target because of lower recoveries and grades at Çayeli. Zinc production was higher than 2006 mainly because of:

- higher grades at both Çayeli and Pyhäsalmi
- higher throughput at Çayeli.

Gold production was lower than our target and lower than 2006 mainly because mill throughput was lower at Troilus and Ok Tedi. At Troilus, difficulties with the ball mill reduced production capacity and at Ok Tedi, the high content of fluorine ore resulted in reduced metal recoveries and throughput.

There were fewer delays in shipments in 2007 than there were in 2006 so overall sales volumes were higher than production volumes.

2008 outlook for gross sales

Our outlook for sales ties directly to our production outlook. We expect copper and gold sales volumes in 2008 to be higher than they were in 2007 because of our higher production expectations, including new production at Las Cruces.

We have set a higher copper production target for 2008 because production will start at Las Cruces and copper grades at Troilus will be higher. We are expecting to mine lower zinc grades at Pyhäsalmi in 2008, so we expect overall zinc production to be lower than it was this year. Our gold target for 2008 is 27 percent higher than for 2007 because we are expecting to mine higher grade gold at both Ok Tedi and Troilus.

Our Canadian dollar sales revenues are affected by the US dollar denominated metal price we receive, and the exchange rate between the US dollar and Canadian dollar.

Consolidated financial review (cont'd)

Smelter processing charges and freight were lower in 2007

Smelter processing charges include treatment and refining charges, content losses (determined by the smelters) and price participation. Despite selling more volume in 2007, we paid 15 percent less in smelter processing charges and freight than we did in 2006, mainly because copper treatment charges and price participation were both lower than last year.

The table below shows our smelter processing charges and freight by operation and by metal.

(millions)	2007	2006	Change
Smelter processing charges and freight by operation			
Çayeli	$ 94	$ 100	-6%
Pyhäsalmi	62	75	-17%
Troilus	8	11	-27%
Ok Tedi [1]	42	55	-24%
	$ 206	$ 241	-15%
Smelter processing charges and freight by metal			
Copper [1]	$ 97	$ 127	-24%
Zinc	97	104	-7%
Other	12	10	+20%
	$ 206	$ 241	-15%
Smelter processing charges by type and freight			
Treatment and refining charges	$ 80	$ 69	+16%
Price participation/escalation clauses	16	72	-78%
Content losses	74	68	+9%
Other	4	6	-33%
Freight	32	26	+23%
	$ 206	$ 241	-15%

1. Includes our 18 percent share of Ok Tedi's smelter processing charges and freight.

The information in the next two tables is designed to help you understand how smelter processing charges affect our results. The units of measure we have chosen are typical of units used in the market.

This table shows treatment charges, concentrate sold and cost per tonne of concentrate sold.

	2007 Costs (millions)	2007 Tonnes of concentrate sold (thousands)	2007 Cost per tonne of concentrate sold	2006 Costs (millions)	2006 Tonnes of concentrate sold (thousands)	2006 Cost per tonne of concentrate sold
Copper treatment charges	$21	333	$ 63	$35	311	$112
Zinc treatment charges	$46	168	$274	$17	134	$124

This table shows copper refining charges, price participation/escalation charges and content losses, metal production sold and cost per pound of metal sold.

	2007 Costs (millions)	2007 Pounds of production sold (millions)	2007 Cost per pound of metal sold	2006 Costs (millions)	2006 Pounds of production sold (millions)	2006 Cost per pound of metal sold
Copper refining charges	$13	183	$0.06	$17	175	$0.09
Price participation — copper	$14	183	$0.08	$28	175	$0.16
Price escalation — zinc	$ 2	192	$0.01	$44	154	$0.29
Content losses — copper	$29	183	$0.15	$28	175	$0.15
Content losses — zinc	$45	192	$0.24	$40	154	$0.26

2008 outlook for smelter processing charges and freight

Copper treatment and refining charges have been on a downward trend since 2005 and we expect this trend to continue into 2008 as all forecasts point to a third consecutive year of concentrate deficits.

We sell approximately 90 percent of our copper concentrate under long-term contracts. We are estimating long-term treatment costs of US $50 per dry metric tonne and spot treatment costs as low as US $25 per dry metric tonne. We also expect there will continue to be little to no price participation on the part of smelters.

The output of zinc concentrates increased over 2007, which created a large surplus in the zinc concentrate market. We therefore expect to see another increase in zinc treatment charges in 2008 to about US $325 per dry metric tonne. Price escalation/de-escalation is expected to continue for zinc concentrates. This should be approximately US $0.10 per dry metric tonne for zinc prices greater than US $3,000 per tonne ($1.36 per pound), and (US $0.06) per dry metric tonne for zinc prices less than US $3,000 per tonne.

Production will begin at Las Cruces in 2008. For five months starting in May, Las Cruces plans to sell crushed ore to the smelters and incur smelter processing charges. The costs associated with smelting this material are expected to be higher than at our other operations because of the impurity levels in this ore.

We expect copper cathode production at Las Cruces to start in the fourth quarter. This copper cathode will be sold directly to buyers, bypassing the smelters and eliminating smelter processing charges.

Consolidated financial review (cont'd)

Cost of sales have increased

We measure cost performance at our operations by tracking costs per tonne of ore milled (refer to Financial review by operation for specific details). Most of the costs at our operations are fixed, so the quantity of ore produced has a significant impact on per tonne costs.

Costs are affected by the type of mine and the country it operates in. For example, an open pit mine uses more fuel than an underground mine. Labour costs are determined by factors that vary by country, like general wage levels, inflation and foreign exchange rates.

The table below shows direct production costs by operation.

(millions)	2007	2006	Change
Direct production costs by operation			
Çayeli	$ 87	$ 73	+19%
Pyhäsalmi	50	48	+4%
Troilus	78	77	+1%
Ok Tedi[1]	81	82	-1%
Total direct production costs	296	280	+6%
Inventory change	3	(3)	+200%
Reclamation, accretion and other non-cash expenses	10	8	+25%
Cost of sales	$ 309	$ 285	+8%

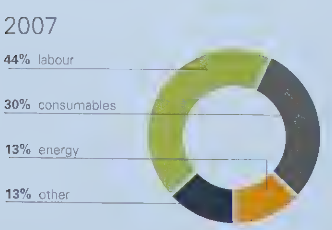
1. Includes our 18 percent share of Ok Tedi's direct production costs.

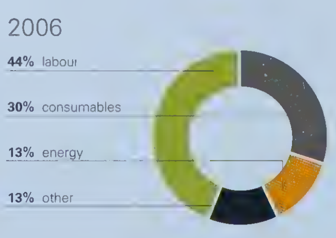
Direct production costs increased $16 million (6 percent) in 2007 compared to 2006, as shown in the table below.

(millions)	Change
Higher sales volume	$ 1
Higher consumable costs	11
Higher labour costs	9
Lower royalties at Çayeli	(4)
Lower compensation at Ok Tedi	(1)
Increase in direct production costs, compared to 2006	**$ 16**

The following charts show the breakdown of 2007 production costs compared to 2006 on a consolidated basis.

Distribution of direct production costs
2007 vs. 2006





2008 outlook for cost of sales

We expect our direct production costs at our operating mines to be consistent with 2007. Consolidated direct production costs should be higher because production starts at Las Cruces in 2008.

Certain variable costs may continue to affect our earnings depending on metal prices:

- royalties at Çayeli are affected by its net income
- variable employee compensation costs at Ok Tedi are affected by its cash flows.

The total amount we spend in Canadian dollars will also be affected by the value of the US dollar and euro relative to the Canadian dollar.

Depreciation unchanged from last year

We depreciate most of the cost of our capital investments for each operation over the life of the mine as reserves are depleted. Other capital items are depreciated over their useful lives, which range from five to 14 years.

(millions)	*2008 objective*	2007	2006	Change
Depreciation by operation				
Çayeli	*$ 9*	$ 9	$ 7	+29%
Pyhäsalmi	*9*	9	9	–
Las Cruces	*8*	–	–	–
Troilus	*10*	10	11	-9%
Ok Tedi[1]	*12*	8	7	+14%
	$ 48	$ 36	$ 34	+6%

1. Includes our 18 percent share of Ok Tedi's depreciation.

Depreciation in 2007 included a full year of the shaft development at Çayeli, while in 2006 it included only four months. Ok Tedi has increased depreciation because of the spending on mine equipment replacements and other sustaining capital over the last few years.

2008 outlook for depreciation

We expect depreciation to be higher in 2008 because production at Las Cruces will begin and Ok Tedi will begin depreciating the capital in relation to the mine waste tailings project.

MD&A

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Consolidated financial review (cont'd)

2. Spending on development and exploration

In 2007, we continued to focus on exploration opportunities in the areas around our existing properties. In 2006, we also examined the potential of an underground mine at Troilus, but determined that the project was not economically viable at that time. Other exploration includes expenditures related to finding base metal deposits in Sweden and North and South America.

The table below shows our spending on corporate development and exploration in the past two years and our target for 2008.

(millions)	2008 target	2007 actual	2006 actual	Change (2006 to 2007)
Exploration at operations	$ 4	$ 4	$ 7	-43%
Other exploration	5	2	1	+100%
Mergers and acquisitions, and development projects	2	3	2	+50%
	$ 11	$ 9	$ 10	-10%

2008 outlook for corporate development and exploration

We expect to spend more on other exploration efforts in 2008 because in addition to exploring in areas around our existing operations, we will focus on copper dominant polymetallic systems that have the potential for annual production of more than 100,000 tonnes of copper.

3. Corporate costs

These appear in our financial statements as:

- general and administration
- investment and other income
- interest expense
- income and capital taxes.

General and administration

General and administration costs are largely for management remuneration, governance and strategy. Costs in 2007 were $6 million higher than 2006 because of the higher performance bonus.

2008 outlook for general and administration

Our general and administration costs have been increasing over the last few years mainly because of performance-based bonuses. Our long-term incentive plans should result in more consistent general and administration costs in the future.

In December 2007, the Board approved a new management performance share unit plan. Units awarded under the plan are redeemable for Inmet common shares issued from treasury on a one-to-one basis upon the successful completion of specified growth projects. 500,000 Inmet common shares have been reserved for issuance under the plan. An initial award, comprised of three tranches totaling 215,000 units relating to completion of the Las Cruces, Cerattepe and Petaquilla projects, has been made. The plan is subject to shareholder approval, which will be sought at Inmet's Annual and Special Meeting of Shareholders (ASM) to be held on Tuesday, April 29, 2008. Details of the plan will be set out in the management proxy circular to be mailed to shareholders in connection with the ASM.

For 2008, we expect general and administration costs of approximately $15 million.

Investment and other income

The table below shows our income from investments and other transactions.

(millions)	2007	2006
Gain on sale of Izok	$ –	$ 24
Gain on sale of Wolfden	12	–
Interest income	33	14
Dividend and royalty income	6	6
Foreign exchange gain (loss)	(14)	4
Settlement of pension liability	(2)	–
Other	3	–
	$ 36	$ 48

Sale of assets

- On March 31, 2006, we sold our interest in the Izok development property to Wolfden Resources Inc., and recorded a gain of $24 million. In exchange, we received 13.5 million common shares of Wolfden and 9.5 million common shares of Premier Gold Mining Ltd.
- In May 2007 we sold our shares of Wolfden to Zinifex Canadian Enterprises Inc. for $51 million or $3.81 per share, and recorded a gain of $12 million.

Higher cash balances

Our 2007 interest income was higher than in 2006 because of higher cash balances.

Foreign exchange

We have a foreign exchange gain or loss when:

- we revalue certain foreign denominated assets and liabilities
- we distribute funds from our self-sustaining operations and recognize the foreign exchange we previously deferred on our original investment and on funds as they accumulated.

We had foreign exchange losses of $14 million in 2007:

- $5 million from the distribution of funds from Ok Tedi
- $6 million from the revaluation of euro denominated cash we are holding in Canada
- $3 million from the revaluation of short-term foreign intergroup loans and other monetary items, such as taxes.

In 2006, the foreign exchange gain was mainly from the revaluation of short-term foreign intergroup loans. This was reduced slightly by foreign exchange losses from the distribution of funds from Çayeli, Pyhäsalmi and Ok Tedi.

Settlement of pension liability

In 2007, we bought annuities for our retired pension plan members under our US defined benefit plan using our pension fund assets and $3 million in cash. The pension liability was partially accrued so settling the obligation created an expense of $2 million.

2008 outlook for investment and other income

Investment and other income is affected by cash balances, interest rates and exchange rates.

We plan to repatriate approximately $300 million in cash from Çayeli in the first half of 2008. Assuming US dollar parity to the Canadian dollar, we would expect to record a foreign exchange loss of about $30 million in the first half of 2008. We also plan to repatriate Pyhäsalmi's 2007 distributable earnings in the second quarter of 2008. These earnings were accumulated at an average exchange rate of C $1.46 to the euro. If this exchange rate does not change significantly, the foreign exchange impact should be minimal. Because Ok Tedi distributes its earnings more frequently, the effect of repatriation is normally not that significant.

At December 31, 2007, we only held €5 million in Canada that could be affected by foreign exchange gains or losses.

Consolidated financial review (cont'd)

Interest expense

Interest expense of $2 million in 2007 was consistent with 2006. Las Cruces is incurring interest charges on its credit facilities and these amounts are being capitalized to property, plant and equipment as the project is constructed. Las Cruces capitalized the following in interest charges this year:

(millions)	2007	2006
Capitalized interest from:		
Credit facility	$ 8	$ 3
Non-controlling shareholder funding	5	1
	$ 13	$ 4

2008 outlook for interest expense

We expect to continue to capitalize interest at Las Cruces until the plant is in production (expected to be the fourth quarter of 2008), except for the interest expense on the debt related to the mine development, which we will start to expense in the second quarter, when we begin to ship ore.

Income and capital taxes

Our operations pay tax every year based on their income before taxes in the currency they use to prepare their annual tax returns (their local currency). They expense tax based on their income before taxes in the currency they report in.

These can be different because of differences between the time an operation incurs an expense and when we record it for accounting purposes. Timing differences should not result in a change in the effective tax rate of an operation.

Differences can also arise from changes in foreign exchange rates. The foreign exchange gains or losses that affect local currency financial statements, which are used as the basis for taxes paid, may be different from the foreign exchange gains or losses that affect the reporting currency financial statements. These are permanent differences and will change the effective tax rate of an operation.

The tables below shows the taxes we expensed (recovered) in 2007 and in 2006.

2007 (millions)	Çayeli	Pyhäsalmi	Ok Tedi	Troilus and Corporate	Total
Corporate taxes	$ 36	$ 30	$ 54	$ 2	$ 122
Withholding taxes	10	–	14	–	24
Future taxes	–	1	(2)	(5)	(6)
	$ 46	$ 31	$ 66	$ (3)	$ 140

2006 (millions)	Çayeli	Pyhäsalmi	Ok Tedi	Troilus and Corporate	Total
Corporate taxes	$ 38	$ 31	$ 58	$ 2	$ 129
Withholding taxes	–	–	13	–	13
Future taxes	(2)	1	(1)	–	(2)
Future tax adjustment	(10)	–	–	–	(10)
	$ 26	$ 32	$ 70	$ 2	$ 130

Çayeli began accruing for withholding tax on net income in 2007 at a rate of 8 percent. In 2006, Çayeli reduced its future income tax liability and recorded an income tax recovery of $10 million after the Turkish government lowered the statutory tax rate to 20 percent.

For Troilus and corporate, we have sufficient tax losses in Canada to offset any cash taxes payable on earnings from Troilus and Canadian interest income. The corporate tax expense is for taxes owing from Canadian subsidiaries (separate legal entities) that do not have prior year tax losses to offset taxable income. We did not record a future tax expense on Troilus' earnings in 2007 or 2006 because revised assumptions about future Canadian taxable income allowed us to increase the future tax asset rather than draw it down.

Corporately, we have $94 million in Canadian tax losses that we can use to offset future taxable income and taxable capital gains in Canada. Of this amount, $6 million relates to taxable capital losses, which can only be used to offset future taxable capital gains.

We assess the chances for recovery of these tax losses and when it seems more likely than not that we will use part of the losses, we establish a future tax asset. As of December 31, 2007, we calculated that it was more likely than not we would have $19 million in future taxes payable on future taxable income in Canada, which we recorded as a future income tax asset. Our Canadian taxable income includes earnings from Troilus and interest income offset by general and administration costs among other things. The $19 million reflects a $5 million increase in asset value from last year as we have estimated higher taxable income in years going forward because of higher gold prices.

The table below shows the statutory and effective rates for each of our operations.

	2008 statutory rate	2007 statutory rate	2007 effective rate	2006 statutory rate	2006 effective rate
Çayeli (Turkey)	*24%*	27%	21%	20%	13%
Pyhäsalmi (Finland)	*26%*	26%	23%	26%	23%
Ok Tedi (Papua New Guinea)	*37%*	37%	37%	37%	36%
Las Cruces (Spain)	*30%*	35%	30%	35%	–
Troilus and corporate (Canada)	*34%*	34%	–	35%	–

The Las Cruces statutory rate was lowered to 30 percent effective January 1, 2008. Since Las Cruces does not currently pay any tax, we have recorded future tax expenses using the 30 percent rate and not the statutory rate of 35 percent in 2007.

The differences between the statutory and effective tax rates at Çayeli and Pyhäsalmi are explained below:

Çayeli taxes	2007	2006
Statutory tax rate	27%	20%
Foreign exchange losses in Turkish lira tax accounts	(6%)	(2%)
Reduction in future tax liability from reduced corporate rate	–	(5%)
Effective tax rate	21%	13%

Pyhäsalmi taxes	2007	2006
Statutory tax rate	26%	26%
Tax recovery from intergroup loans	(3%)	(3%)
	23%	23%

2008 outlook for income tax expense

We will accrue for withholding tax on Çayeli's net income at a tax rate of 5 percent, which we expect to result in a combined statutory tax rate of 24 percent. We expect statutory tax rates at our other operations in 2008 to remain the same as they were in 2007 unless a statutory tax rate change is enacted.

Financial strength

Our financial objective is to ensure we have the cash and debt capacity to support our strategy to grow responsibly as a base metal mining company, providing superior returns to shareholders.

Our strategy is to ensure that we have sufficient liquidity in the form of cash and committed credit facilities to finance our operating requirements and the growth projects we have identified. We manage our debt levels by ensuring that, even at the low point in the metal price cycle, our operations can provide adequate debt coverage.

Financial condition

High metal prices over the past two years have allowed us to strengthen our balance sheet and spend significant capital to support our growth strategy.

Key financial measures

We use the following key financial measures to assess our financial condition and liquidity:

	Inmet guidelines	2007	2006
Current ratio	> 2 to 1	**5.6 to 1**	5.1 to 1
Gross debt to total equity	< 25%	**18%**	10%
Long-term debt to EBITDA	< 4 times	**0.4**	0.2
EBITDA to total debt service (total debt service ratio)	> 1.5 times	**38**	649
EBITDA to interest paid (interest coverage ratio)	> 3 times	**84**	649

Gross debt includes current portion of long-term debt and long-term debt. EBITDA is *earnings before interest, taxes, depreciation and amortization.* Total debt service includes interest paid plus loan repayments. These measures are calculated in note 16 to the consolidated financial statements.

We use these measures as we assess new growth opportunities to determine how much debt we can take on. Our vision, which we have outlined in our guidelines in the chart above, is to manage financial risk by using debt with conservative leverage and coverage ratios, therefore minimizing dilution.

Our debt increased in 2007 as we continued to develop Las Cruces. Las Cruces will begin repaying debt in 2008, which will affect the measures but keep us well within our guidelines.

The strength of our current ratios is mainly because of our growing cash balance. Our cash comes mainly from free cash flow from our operations, which is the net cash generated by our operations from the sale of metals, less spending on capital equipment and financing activities. The increase in free cash flow from operations in 2007 was mainly from higher volumes sold.

The table below shows how our consolidated cash increased this year and in 2006.

(millions)	2007	2006
Free cash flow from operations	**$ 323**	$ 427
Spending on development and exploration not incurred by operations	**(6)**	(3)
Corporate costs and other income	**30**	(20)
Development at Las Cruces	**(139)**	(13)
Development at Cerattepe	**(7)**	(3)
Increase in consolidated cash	**$ 201**	$ 388

Free cash flow from operations is a non-GAAP measure. For each of Çayeli, Pyhäsalmi, Troilus and Ok Tedi we include cash flow from operations, less cash used in investing and financing, adjusted for foreign exchange changes on cash held in foreign currency.

We used our free cash flow to fund part of the development of Las Cruces both in 2007 and in 2006.

2008 outlook on financial condition

In 2008, we will draw down further on the Las Cruces credit facility and use some of our cash to finance Las Cruces development. These activities will have an impact on our financial capacity and flexibility as our sponsor guarantee restricts our ability to take on certain forms of additional debt. Our current cash balance and expected cash flows, however, should provide adequate capacity to fund our current growth projects.

At this time, we are focusing financial capacity on the growth of the company and are not contemplating any shareholder distributions outside of our semi-annual dividends; we continually examine our liquidity and financial capacity and would consider a cash distribution when we find that we have more cash than we expect we need to meet our operating, development and growth requirements.

Managing our liquidity

The table below shows our sources of cash and how we used it in 2007 and 2006.

(millions)	2007	2006
Cash and short-term investments, beginning of year	$ 640	$ 252
Cash from operating activities		
Çayeli	215	173
Pyhäsalmi	109	109
Troilus	15	17
Ok Tedi	98	151
	437	450
Corporate development and exploration not incurred by operations	(6)	(3)
General and administration	(20)	(14)
Investment income and other	19	8
Reclamation costs	(3)	(3)
	427	438
Cash from investing		
Disposition of Wolfden Resources	51	–
Capital assets	(346)	(133)
Other	–	3
	(295)	(130)
Cash from financing		
Long-term debt borrowings, less repayment	89	73
Funding by non-controlling shareholder	56	13
Financial assurance payments	(4)	(12)
Other financing	(19)	(10)
	122	64
Foreign exchange on cash balances	(53)	16
Cash and short-term investments, end of year	$ 841	$ 640

Cash from operating

The table below shows what contributed to the decrease in operating cash flow in 2007.

(millions)	Change
Higher earnings from operations	$ 25
Higher income tax expense, not including future income tax	(4)
Higher interest income	19
Higher general and administration costs	(6)
Change in working capital	(37)
Other	(8)
Decrease in operating cash flow, compared to 2006	**$ (11)**

We earned higher interest income in 2007 from higher cash balances and incurred higher costs for general and administration. Working capital changes reduced our operating cash flows this year mainly because of higher taxes paid in 2007 than in 2006: in 2007 we made final payments for our 2006 taxes and paid higher tax instalments for our 2007 taxes.

Financial strength (cont'd)

2008 outlook for cash from operating

Based on our outlook for metal prices and production, we expect our operating cash flows to be in a similar range for 2008 for our operating mines and we expect operating cash flows from the start of production at Las Cruces.

Cash from investing

Cash flows from investing activities include:

- the sale of assets
- capital spending.

Sale of assets

We sold our shares of Wolfden in May 2007 and received proceeds of $51 million.

Capital spending

The table below shows capital spending by operation.

(millions)		*2008 objective*		2007 actual		2006 actual
Çayeli	*$*	*23*	$	18	$	15
Pyhäsalmi		*12*		3		6
Troilus		*1*		2		2
Ok Tedi		*23*		32		11
Las Cruces		*342*		283		93
Cerattepe		*53*		8		3
Accruals		*–*		–		3
	$	*454*	$	346	$	133

Details on capital spending by operation are included in *Financial review by operation* — starting on page 58.

2007 capital spending was largely on development at Las Cruces, the lower mine development project at Çayeli and the mine waste management program at Ok Tedi.

2008 outlook for cash from investing

We expect capital spending to be $454 million in 2008:

- $325 million for the continuing development of the Las Cruces mine and $17 million for its sustaining capital
- $53 million for the continuing development of Cerattepe
- $8 million for the mine waste management program and $5 million for drainage tunnel underground works at Ok Tedi.

Sustaining capital

Sustaining capital is the money a mine spends to maintain its operations at their current level. This includes the costs of replacing mobile equipment and other shorter-life assets.

The table below shows each operation's average annual spending on sustaining capital.

Çayeli	US $3 million
Pyhäsalmi	€3 million
Troilus	$1 million
Las Cruces (100%)	€24 million
Ok Tedi (100%)	US $7 million

Cash from financing

Cash flows from financing include borrowing and repaying debt, and other financial transactions, including paying dividends, receiving subsidies and making financial assurance fund payments.

The majority of our financing activities in 2007 and in 2006 related to the development of Las Cruces. The following financing activities took place at Las Cruces:

(millions)	2007	2006
Borrowing from credit facility	$ 98	$ 73
Borrowing from shareholders	186	48
Subsidies received	–	8
	$ 284	$ 129

Las Cruces used the proceeds for:

(millions)	2007	2006
Development spending	$ 283	$ 93
Repaying part of Tranche B of the credit facility	9	–
Providing collateral to banks for letters of credit and to suppliers	2	10
Setting up the credit facility	–	6
	$ 294	$ 109

Providing financial assurance

For some of our properties, we are required to provide financial assurance to regulators that we can meet our reclamation and restoration liabilities. We are also required to provide financial assurance for a former executive's pension benefit, and at Las Cruces we are required to provide assurance on a labour bond and to various suppliers.

At December 31, 2007, we had approximately $65 million in letters of credit for the security of the following:

(millions)	
Reclamation and restoration liabilities	$ 33
Labour bond	8
Subsidies	8
Pension	4
Las Cruces suppliers and other	12
	$ 65

Of this amount, $14 million are issued under a fully cash collateralized Inmet Mining letter of credit facility, $37 million under the Las Cruces letter of credit facility and $13 million under Las Cruces restricted cash accounts. The remaining letters of credit are unsecured. In addition, Ok Tedi provides a form of financial assurance by funding a trust for future rehabilitation.

At December 31, cash collateralized and restricted included the following items.

(millions)	2007	2006
Inmet Mining letter of credit facility	$ 14	$ 14
Las Cruces letters of credit	13	11
Ok Tedi in trust for future rehabilitation	12	11
	$ 39	$ 36

Financial strength (cont'd)

Regulatory authorities in other jurisdictions where we operate may also from time to time ask us to provide financial assurance against future reclamation and restoration obligations. This can happen as regulations evolve, if a regulatory authority chooses to no longer accept other forms of assurance, or when an operation is nearing the end of its life. Although providing financial assurance does not increase our future reclamation and restoration obligations, it may either reduce our available credit capacity or restrict cash reserves, which can affect our liquidity.

The conditions attached to the Las Cruces Mining Concession require Las Cruces to post two bonds before mining activity can begin: a restoration (closure) bond and a labour bond. These were posted by Las Cruces in 2005. The labour bond is fixed at €5 million for the life of the mine. The closure bond is based on what it would take to restore the site to its post-mining land-use at any point in the mine's life. The initial amount of the closure bond was set at €14.8 million. This takes into consideration the mine's expected life, the corresponding land disturbance and estimated closure costs.

2008 outlook for cash from financing

The table below shows contractual obligations existing at December 31, 2007, including principal payments and interest.

(millions)	2008	2009 and 2010	2011 and 2012	2013 and beyond	Total
Financing					
Long-term debt — credit facility	$ 22	$ 85	$ 61	$ –	$ 168
Long-term debt — non-controlling shareholder funding	9	19	19	137	184
Long-term debt — promissory note	1	2	2	17	22
Operating or investing					
Derivative liabilities	32	2	2	–	36
Royalties	3	12	13	40	68
Reclamation costs	4	9	14	110	137
Termination costs	4	2	–	–	6
Operating leases	6	8	8	–	22
Purchase commitments	165	–	–	–	165
Total	$ 246	$ 139	$ 119	$ 304	$ 808

Credit facility

On December 15, 2005, Las Cruces entered into a credit agreement with a syndicate of Canadian and international lending institutions to finance the development of the mine.

The facility consists of two tranches:

- Tranche A is a US $240 million senior secured facility that contains a US $25 million letter of credit facility maturing on December 15, 2015 (this tranche has been drawn down in euros and will be repaid in US dollars).
- Tranche B is a €69 million senior secured bridge financing facility to finance the receipt of government subsidies and value-added taxes that expires on December 31, 2009.

As at December 31, 2007, Las Cruces had drawn down €87 million from Tranche A and €24 million from Tranche B (totaling C$160 million). The table above shows the debt repayments and interest payments based on the $160 million outstanding at December 31, 2007.

For more information about this facility, including interest rates and repayment terms see note 10 to our consolidated financial statements.

Non-controlling shareholder funding

We also have loans owing to Las Cruces' non-controlling shareholder in the amount of $71 million. The loans bear interest at an annual rate of euro LIBOR plus 8.55 percent and are to be repaid by February 2020.

Promissory note

This is a €14 million unsecured promissory note that we issued to Outokumpu Oyj in March 2002, as part of the purchase of Pyhäsalmi. The note is payable in October 2013.

Derivative liabilities

The amounts presented in the table relate to our gold and copper forward contracts. These are described in the next section *Financial instruments*. The table shows payments based on the obligation at December 31, 2007. Actual payments will vary based on market conditions. The effects of the foreign exchange forward contract and the interest rate swap contract are reflected in the debt repayments for the Las Cruces credit facility.

Royalties

We have two royalty commitments. One is based on sales of copper at Las Cruces and the other based on net income at Çayeli. In the event that we do not sell copper at Las Cruces, we have no payment obligation to the royalty holder. At Çayeli, regardless of net income, a minimum royalty of $0.7 million must be paid to the royalty holder. The table shows royalty payments based on a copper price of US $1.50 per pound and zinc of US $0.75 per pound. Based on 2008 estimated production, an increase of 10 percent in copper and zinc prices would result in an increase in royalty payments of approximately $1 million.

Reclamation costs

These are mostly for closed mines and long-term water treatment. Costs payable after five years include estimated closure costs for our operating mines and ongoing long-term water treatment.

Termination costs

In December 2007, a termination benefits plan associated with the future closure of Troilus in 2010 was approved and communicated to employees. Under the plan, benefits are only payable when employees continue to work at Troilus up to the specified termination dates. We estimate that approximately $6 million will be paid on the termination dates, of which $4 million is expected to be paid in 2008.

Operating leases

Ok Tedi has operating leases for mine equipment, sea vessels and air transport vehicles.

Purchase commitments

Çayeli also has two remaining contingent payments relating to the acquisition of Cerattepe. These payments, which total US $9 million, are not mandatory, so we have not included them in the table above.

The first of the remaining two payments, US $4.5 million, was due on September 30, 2005. This instalment was extended by mutual agreement after the local administrative court ruled that the original operating licences relating to the Cerattepe property were incorrectly exempted from environmental assessment requirements. While the licences were subsequently reinstated by the Turkish Administrative Supreme Court (Danistay), they are currently the subject of more recent court proceedings seeking their cancellation.

Under a mutual agreement with the seller, the first of the remaining two payments is due on March 31, 2008, or 30 days after the receipt of a court decision regarding the current proceedings.

Ok Tedi has committed $55 million (our proportionate share is $10 million) for the mine waste tailings project.

Las Cruces has committed €124 million ($143 million) relating to engineering, procurement and construction management and additional construction work related to the pit and plant.

Çayeli has committed $2 million for the purchase of mine equipment.

Cerattepe has committed $10 million for construction of the ropeway.

Share capital

Inmet Mining has 48,281,909 common shares outstanding at December 31, 2007 and March 10, 2008.

Financial instruments

Effective January 1, 2007, we adopted the following CICA Handbook Sections associated with accounting for financial instruments: Section 3855, Financial Instruments — Recognition and Measurement; Section 3865, Hedges and Section 1530, Comprehensive Income.

Financial instruments — recognition and measurement

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires us to recognize financial assets and financial liabilities, including derivatives, on the balance sheet when we become a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Fair value is the amount at which an item could be exchanged between willing parties. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Hedges

This section specifies when and how we can use hedge accounting for the following hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

Comprehensive income

Comprehensive income consists of net income, together with certain other economic gains and losses that collectively are described as other comprehensive income, and excluded from the income statement. Other comprehensive income includes unrealized gains and losses on our investments, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Our consolidated financial statements include a consolidated statement of comprehensive income while the cumulative amount, *Accumulated other comprehensive income*, is presented as a new category of shareholders' equity in the consolidated balance sheets.

The adoption of these standards has resulted in significant changes to our accounting policies and our opening balances on January 1, 2007. For a detailed description of our accounting policies for financial instruments as well as the impact of adopting these standards, refer to note 24 to our financial statements.

The following is a summary of our financial instruments as at and for the year ended December 31, 2007:

Financial instrument (millions)	Designated category	Measurement basis	Associated risks	Fair value at Dec. 31, 2007	Amounts recorded in earnings	Amounts not recorded in earnings[1]
Cash, short term investments and restricted cash	Held for trading	Fair value	• Market • Credit • Liquidity	$880	Interest income — 2007 — $33; 2006 — $14	Nil
Investments	Available for sale	Fair value	• Market	$32	Investment and other income — 2007 — $11 gain; 2006 M$24 gain	$17 gain
Foreign exchange forward contracts	Held for trading	Fair value	• Market • Credit	$34	Nil	$35 gain
Long-term debt	Other liabilities	Initially at fair value and subsequently at amortized cost	• Market • Liquidity	$(251)	Interest costs — 2007 — $2 expensed ($10 capitalized); 2006 — $2 expensed ($4 capitalized)	Carrying value less than fair value by $4
Gold forward sales contracts	Held for trading	Fair value	• Market	$(33)	$25 loss in revenue	$29 loss
Copper forward sales contracts	Held for trading	Fair value	• Market	$(2)	$3 loss in investment and other income	Nil
Interest rate swap contracts	Held for trading	Fair value	• Market	$(8)	Investment and other income — 2007 — $1 loss	$8 loss

1. AOCI balance before related income taxes and minority interest at December 31, 2007.

Managing changes in metal prices, exchange rates and interest rates

We occasionally use hedging instruments to help manage our exposure to market risk. We have entered into the following derivative contracts:

- forward sales contracts to hedge against changes in commodity prices for a portion of our forecasted gold production
- foreign exchange forward contract to hedge against changes in the value of the US dollar relative to the Euro
- interest rate swap contract to hedge against impact of changes to interest rates on our floating rate interest payments.

Under our risk management policy, we seek to mitigate the impact of these market risks to provide certainty for a portion of our revenues and to control costs and enable us to plan our business with greater certainty. For these particular risks, we believe that derivatives are an effective means of managing risk. The primary objective of the hedging elements of our derivative positions is that changes in the values of hedged items are offset by changes in the values of derivatives. Most of the derivatives we use are designated in a hedge accounting relationship. Ok Tedi's copper forward sales contracts have been designated as non-hedge derivatives. Our use of derivatives is based on established practices and parameters, which are subject to the approval of the Board of Directors. We do not use derivatives for speculative or trading purposes. All of our hedge contracts are with highly rated banks that deal in futures and derivatives markets as part of their business. Under our current facilities, we are not subject to margin calls, regardless of spot metal prices or exchange rates.

Gold and copper forward sales contracts

Changes in the price of gold are a business risk that could have a significant effect on cash flows at Troilus and Ok Tedi. We use hedging instruments to ensure a specific amount of liquidity and profitability for a given percentage of production.

To manage the risks associated with hedging, we have a metal price hedging policy that, among other restrictions:

- limits the amount of production we can hedge to 50 percent of recoverable reserves
- restricts the amount of hedging that we can transact with any one counterparty.

Troilus

Because Troilus is a high-cost operation, in 2003 we decided to forward sell part of its gold production to ensure that the operation would have positive cash flows even if gold prices returned to the lower levels we had seen in 1998 to 2002.

Troilus has 58,200 ounces of gold forward sales hedged at a price of US $352 per ounce due in 2008. This represents 35 percent of Troilus' 2008 production. We do not plan to enter into any more hedging of gold production at Troilus.

Ok Tedi

Ok Tedi has entered into gold and copper forward sales contracts for a small portion of its life-of-mine production in order to equalize future payments under the negotiated CMCA agreements.

The table below shows our gold and copper forward sales commitments as at December 31, 2007.

Type of contract	Expiry	Quantity	Price	Recognized fair value at December 31, 2007
Copper forward sales				
Ok Tedi[1]	2008	3.2 million lbs	US $2.78 per lb	
	2009	3.2 million lbs	US $2.41 per lb	
		6.4 million lbs	US $2.60 per lb	$(2.4 million)[2]
Gold forward sales				
Troilus	2008	58,200 ounces	US $352 per oz.	$(26.9 million)[3]
Ok Tedi[1]	2008	6,800 ounces	US $372 per oz.	
	2010	3,600 ounces	US $748 per oz.	
	2011	3,600 ounces	US $775 per oz.	
	2012	3,600 ounces	US $803 per oz.	
	2013	1,800 ounces	US $825 per oz.	
		19,400 ounces	US $639 per oz.	$(6.6 million)[4]

1. Our 18 percent share.
2. Non-hedge derivatives valued using an average forward copper price of US $3.04 per pound.
3. Hedge derivatives valued using an average forward gold price of US $859 per ounce.
4. Hedge derivatives valued using an average forward gold price of US $826 per ounce.

Financial instruments (cont'd)

Foreign exchange forward contract

Las Cruces will be drawing down its credit facility in euros, but the credit facility will ultimately be converted to a US dollar denominated loan with a maximum limit of US $240 million. To fix the amount of euros available under the facility, Las Cruces entered into a forward contract to exchange US $215 million for €171.1 million on June 30, 2008. On the expiry date of the forward contract, any deferred gain or loss from the transaction will be recorded against the carrying amount of the loan. This amount will be amortized as an adjustment to the interest expense on the US dollar loan over its term.

At December 31, 2007, we recognized a derivative asset with a fair value of $33.6 million for Las Cruces' foreign exchange forward contract, based on a spot rate of euro to US dollar of 1.46. At December 31, 2006, the fair value of this contract was an asset of $18 million.

Interest rate swap contract

Beginning in 2008, Las Cruces will be required to make floating rate interest payments on its credit facility. To hedge its exposure to changes in US LIBOR, Las Cruces entered into a swap contract to fix the interest rate at 5.2 percent plus a loan margin of between 1.75 percent and 2.0 percent.

The table below shows the notional amounts of debt being hedged by period.

	Notional Amount of Debt
July 1, 2008 to June 30, 2009	US $179 million
July 1, 2009 to December 31, 2009	US $167 million
January 1, 2010 to June 30, 2010	US $155 million
July 1, 2010 to December 31, 2010	US $137 million
January 1, 2011 to June 30, 2011	US $119 million
July 1, 2011 to December 30, 2011	US $101 million
January 1, 2012 to June 29, 2012	US $83 million
June 30, 2012 to December 31, 2012	US $65 million
January 1, 2013 to June 28, 2013	US $47 million
June 29, 2013 to December 31, 2013	US $29 million
January 1, 2014 to June 30, 2014	US $11 million

At December 31, 2007, we recognized a derivative liability with a fair value of $8.0 million for this interest rate swap contract, based on an average forward US LIBOR interest rate of 4.9 percent. At December 31, 2006, the fair value of this contract was a liability of $1 million.

Self-sustaining foreign operations

Çayeli, Pyhäsalmi, Ok Tedi and Las Cruces are self-sustaining foreign operations. Çayeli and Ok Tedi report in US dollars, and Pyhäsalmi and Las Cruces report in euros. We defer translation exchange gains and losses on these investments and record them in *Accumulated other comprehensive income* included in shareholders' equity.

Our currency exposure is limited to our net investment in these operations. On translation, we will only record a foreign exchange gain or loss in income when our net investment is reduced: when a dividend is paid, for example. The balance also includes the deferral of exchange gains and losses on intergroup debt as we consider this to be part of our net investment. We recognize foreign exchange gains and losses when loans are repaid.

The table below shows the deferred foreign exchange balance at December 31.

(millions)	2007	2006
Pyhäsalmi (euro functional currency)	$ (2)	$ 5
Çayeli (US dollar functional currency)	(15)	(9)
Ok Tedi (US dollar functional currency)	(66)	(6)
Las Cruces (euro functional currency)	(2)	8
	$ (85)	$ (2)

Accounting policies

Critical accounting estimates

Because of the nature of our business, we are required to make estimates about the future that affect the amount of assets, liabilities, sales and expenses we report.

The following areas include estimates that are based on our past experience, our best judgment and assumptions we think are reasonable:

- property, plant and equipment
- investment impairment
- reclamation costs
- valuation allowance on future income tax asset.

We believe they provide a fair presentation of our financial condition and results of operations.

Please see note 1 to the consolidated financial statements on page 108 for a full discussion of our significant accounting policies.

Property, plant and equipment

The table shows our property, plant and equipment at December 31, 2007.

(millions)		2007
Property	$	62
Plant and equipment		195
Deferred development		614
	$	871

Property

We depreciate property using the unit-of-production method where the value of the property is reduced as reserves are depleted. We base this on mining rates and our estimates of proven and probable mineral reserves. A change in our proven and probable reserves would change our future depreciation expense.

Changing our assumptions about metal prices, exchange rates or production costs, or getting new results from drilling and exploration, will change our proven and probable mineral reserves.

Sensitivity analysis:
The table below shows how a 25 percent change in mineral reserves at the beginning of 2007 would have affected our depreciation.

	Change in 2007 depreciation	After tax impact
Çayeli	+/- $1.3	+/- $1.0
Pyhäsalmi	+/- $0.8	+/- $0.6
Troilus	+/- $3.0	+/- $3.0
Ok Tedi	+/- $0.8	+/- $0.5

Accounting policies (cont'd)

Impairment of long-lived assets

Our estimates of the recoverability of our operating and development properties are critical, because they could have a significant impact on the balance sheet and statement of earnings.

We periodically review and evaluate the recoverability of capital assets based on our estimate of undiscounted future cash flows over the life of the mine from each of our properties. This includes our estimates of:

- recoverable mineral reserves
- value beyond proven and probable reserves
- future metal prices
- future exchange rates
- future operating, capital and reclamation costs.

If any of these estimates change, future net cash flows from our properties could be lower, which would result in impairment.

Based on our estimate of mineral reserves on December 31, 2007, and long-term metal prices of US $1.50 per pound of copper, US $0.75 per pound of zinc and US $575 per ounce of gold, there was no impairment in the value of any of our operating properties.

Sensitivity analysis:
A 25 percent reduction in estimated life-of-mine cash flows would not impair the value of Çayeli, Pyhäsalmi, Troilus, Ok Tedi or Las Cruces.

Pre-production costs

The criteria we use to determine the production start date is critical because the capitalization of costs, related to pre-production, ceases on that date. The criteria used to assess the production start date is not straight-forward and is determined based on the unique nature of each development property such as the complexity of its plan, and its economic, political, and environmental condition.

Some of the factors we consider in determining the production start date include, but are not limited too, the following:

- production of saleable material
- completion of a reasonable period of testing of the plant and equipment in the mine and mill
- the achievement of a certain level of recoveries from the ore mined
- the ability to sustain ongoing production and the mine reaching a certain level, normally 60 percent, of production capacity.

Investment impairment

We hold investments in several publicly traded companies which we have designated as *available for sale*. Every reporting period, we review all securities that have a fair value below cost to determine if there is an other-than-temporary impairment. We assess the following:

- how long fair value has been below cost, and by how much
- the financial condition and near term prospects of a company we have invested in
- our ability or intent to hold the investment long enough to allow for anticipated recovery.

At December 31, 2007, our investments were recorded at a fair value of $32 million on the balance sheet, including unrealized gains of $17 million.

Reclamation costs

Our closed mines, operations and joint ventures are subject to environmental laws and regulations in Canada, the United States and the other countries we operate in.

Technical issues involved in mine closure can make it an uncertain process. This can increase the time it takes to reclaim a closed mine, which makes it difficult to estimate reclamation costs. We also cannot predict the impact on our financial position of environmental laws and regulations that may be enacted in the future.

We estimated a reclamation liability of $88 million at December 31, 2007. $28 million of this related to closed mines and $60 million related to operating mines and mines under development. This was based on:

- our estimate of the costs and the time it will take to rehabilitate the property
- a discount rate to estimate the fair value of the liability.

The reclamation liability is measured by discounting the expected cash flows at credit-adjusted risk-free interest rates ranging from three percent to seven percent. The actual rate depends on a number of factors, including how long it will take to rehabilitate the property (which can range from five to 17 years) and where the property is located.

The actual cost of site restoration could be higher than the amounts we have estimated. We recognize any changes in our estimates immediately in income for closed mines and we amortize any change over the life of operating mines.

Sensitivity analysis:
A 10 percent change in our estimate of reclamation costs would affect our earnings by approximately $3 million, all of which relates to closed mines.

Valuation allowance on future income tax asset

We have $94 million in Canadian tax benefits from capital losses, capital cost allowances and mining resources pools. This is a significant asset to the company.

We use estimates of future taxable income to determine how much of this benefit we will be able to use. If it is more likely than not that we will have future taxable income in Canada to deduct these losses from, we will record them as a future income tax asset.

If it is more likely than not that we will not have income to deduct the losses from, we will apply a valuation allowance against them.

As of December 31, 2007, we calculated that it was more likely than not we would have $19 million in future taxes payable on future taxable income in Canada, which we recorded as a future income tax asset. Our Canadian taxable income includes earnings from Troilus and interest income offset by general and administration costs among other things.

This amount is an estimate and can be affected by many factors, including: metal prices, actual costs, interest rates and foreign currency exchange rates. Also, the amount of the future income tax asset could be reduced if projected income is not achieved.

Future changes in accounting standards

Inventories

In June 2007, the CICA issued Handbook Section 3031 — Inventories. This Section requires companies to record their inventory at the lower of cost or net realizable value. This is our current accounting policy. The section also provides additional guidance relating to the allocation of fixed production overhead, requires consistent use of either first-in, first-out or weighted average to measure inventories, requires insurance and capital spares be accounted for as property, plant and equipment and requires that any previous write-downs be reversed when the value of inventories increases. The amount of the reversal is limited to the amount of the original write-down. This section applies to us as of January 1, 2008. We are currently assessing the impact that this change in accounting policy will have on our consolidated financial statements.

Supplementary information

Cash costs

We use unit cash cost information as a key performance indicator, both on a segment basis and consolidated basis. We have included cash costs as supplementary information because we believe our key stakeholders use this measure as a financial indicator of our profitability and cash flows before the effects of capital investment and financing costs, such as interest.

Since cash costs is not a recognized measure under Canadian generally accepted accounting principles it should not be considered in isolation of earnings or cash flows. There is also no standard way to calculate them, so they are not a reliable way to compare us to other companies.

The tables below show our copper and gold cash costs for 2007 and 2006.

	per pound of copper				per ounce of gold
2007	Çayeli	Pyhäsalmi	Ok Tedi	Total copper	Troilus
(US dollars)					
Direct production costs	$1.01	$1.58	$1.09	$1.14	$522
Royalties and variable compensation	0.13	–	0.05	0.08	–
Smelter processing charges and freight	1.18	1.64	0.53	1.00	52
Metal credits	(1.97)	(4.63)	(0.90)	(2.02)	(153)
Cash cost	$0.35	($1.41)	$0.77	$0.20	$421

	per pound of copper				per ounce of gold
2006	Çayeli	Pyhäsalmi	Ok Tedi	Total copper	Troilus
(US dollars)					
Direct production costs	$0.80	$1.48	$0.86	$0.94	$459
Royalties and variable compensation	0.14	–	0.09	0.09	–
Smelter processing charges and freight	1.48	2.07	0.64	1.20	68
Metal credits	(2.15)	(5.11)	(0.79)	(2.03)	(162)
Cash cost	$0.27	($1.56)	$0.80	$0.20	$365

Because cash costs are a non-GAAP measure the tables below reconcile cash costs to our GAAP financial statements.

2007	per pound of copper				per ounce of gold
	Çayeli	Pyhäsalmi	Ok Tedi	Total copper	Troilus
For the year ended December 31 (millions of Canadian dollars, except where otherwise noted)					
GAAP reference	**page 60**	**page 62**	**page 66**		**page 64**
Direct production costs	$87	$50	$81	$218	$78
Smelter processing charges and freight	95	62	41	198	8
By product sales	(165)	(155)	(68)	(388)	(23)
Adjust smelter processing and freight, and sales to production basis	9	(2)	1	8	–
Operating costs net of metal credits	$26	($45)	$55	$36	$63
US $ to C$ exchange rate	$1.07	$1.07	$1.07	$1.07	$1.07
Inmet's share of production (000's)	72,000	30,000	67,000	169,000	138,400
Cash cost (US $)	$0.35	($1.41)	$0.77	$0.20	$421

2006	per pound of copper				per ounce of gold
	Çayeli	Pyhäsalmi	Ok Tedi	Total copper	Troilus
For the year ended December 31 (millions of Canadian dollars, except where otherwise noted)					
GAAP reference	**page 60**	**page 62**	**page 66**		**page 64**
Direct production costs	$73	$48	$83	$204	$77
Smelter processing charges and freight	100	76	55	231	11
By product sales	(133)	(171)	(67)	(371)	(26)
Adjust smelter processing and freight, and sales to production basis	(20)	(3)	(1)	(24)	(1)
Operating costs net of metal credits	$20	($50)	$70	$40	$61
US $ to C$ exchange rate	$1.13	$1.13	$1.13	$1.13	$1.13
Inmet's share of production (000's)	67,000	28,700	77,000	172,700	147,900
Cash cost (US $)	$0.27	($1.56)	$0.80	$0.20	$365

Supplementary information (cont'd)

Quarterly review

2007 statements of earnings

(thousands of Canadian dollars, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Year 2007
Gross sales	$ 286,614	$ 320,018	$ 272,293	$ 224,773	$ 1,103,698
Smelter processing charges and freight	(64,606)	(55,413)	(42,557)	(43,902)	(206,478)
Cost of sales	(79,377)	(78,181)	(72,057)	(78,809)	(308,424)
Depreciation	(9,415)	(8,039)	(8,739)	(9,480)	(35,673)
	133,216	178,385	148,940	92,582	553,123
Corporate development and exploration	(842)	(1,836)	(2,895)	(3,510)	(9,083)
General and administration	(2,840)	(2,162)	(2,674)	(12,622)	(20,298)
Investment and other income	7,427	13,415	9,644	5,968	36,454
Interest expense	(438)	(424)	(424)	(407)	(1,693)
Capital tax (expense) recovery	(274)	(274)	(273)	212	(609)
Income tax expense	(35,376)	(48,509)	(37,649)	(18,551)	(140,085)
Non-controlling interest	205	(545)	167	(27)	(200)
Net income	$ 101,078	$ 138,050	$ 114,836	$ 63,645	$ 417,609
Net income per common share	$ 2.09	$ 2.86	$ 2.38	$ 1.32	$ 8.65
Diluted net income per common share	$ 2.09	$ 2.86	$ 2.37	$ 1.32	$ 8.64

2006 statements of earnings

(thousands of Canadian dollars, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Year 2006
Gross sales	$ 210,234	$ 317,624	$ 301,100	$ 258,911	$ 1,087,869
Smelter processing charges and freight	(51,662)	(63,668)	(60,270)	(65,005)	(240,605)
Cost of sales	(65,176)	(78,778)	(73,394)	(67,868)	(285,216)
Depreciation	(7,265)	(8,225)	(9,025)	(9,057)	(33,572)
	86,131	166,953	158,411	116,981	528,476
Corporate development and exploration	(1,454)	(1,456)	(2,708)	(4,136)	(9,754)
General and administration	(2,370)	(2,624)	(2,618)	(6,128)	(13,740)
Investment and other income	25,086	2,940	1,759	17,972	47,757
Interest expense	(391)	(391)	(412)	(425)	(1,619)
Capital tax (expense) recovery	(245)	(246)	41	–	(450)
Income tax expense	(27,196)	(33,240)	(42,902)	(26,679)	(130,017)
Non-controlling interest	–	154	11	(165)	–
Net income	$ 79,561	$ 132,090	$ 111,582	$ 97,420	$ 420,653
Net income per common share	$ 1.65	$ 2.74	$ 2.31	$ 2.02	$ 8.73
Diluted net income per common share	$ 1.64	$ 2.74	$ 2.31	$ 2.02	$ 8.71

Fourth quarter 2007 highlights

The table below shows the metal prices we realized in US dollars and Canadian dollars and exchange rates we realized each quarter in 2007.

	First quarter	Second quarter	Third quarter	Fourth quarter	Year 2007
Copper (US $ per pound)	US $2.81	US $3.71	US $3.62	US $2.75	US $3.22
Copper (C$ per pound)	$3.29	$4.08	$3.76	$2.70	$3.45
Zinc (US $ per pound)	US $1.38	US $1.75	US $1.37	US $1.10	US $1.39
Zinc (C$ per pound)	$1.61	$1.92	$1.42	$1.08	$1.49
Gold (US $ per pound)	US $559	US $575	US $580	US $664	US $594
Gold (C$ per pound)	$654	$632	$603	$651	$636
1 US$ to C$	$1.17	$1.10	$1.04	$0.98	$1.07
1 euro to C$	$1.54	$1.46	$1.44	$1.42	$1.46

The table below shows our sales volumes for copper, zinc and gold for each quarter in 2007.

	First quarter	Second quarter	Third quarter	Fourth quarter	Year 2007
Copper (tonnes)	20,000	20,900	21,000	21,000	82,900
Zinc (tonnes)	25,200	19,700	17,900	24,400	87,200
Gold (ounces)	61,800	59,000	55,500	57,900	234,200

- Base metal prices dropped in the fourth quarter resulting in a reduction to fourth quarter gross sales. The realized metal prices for copper and zinc in the fourth quarter included negative finalization adjustments of $17 million.
- Sales volumes for zinc increased in the fourth quarter because of higher zinc production. Higher zinc grades were mined at Çayeli and Pyhäsalmi during the fourth quarter.
- General and administration include an additional $8 million in costs in relation to performance bonuses. See page 76 for further details.
- Operating cash flow was $76 million in the quarter reflecting the lower net income recognized in the fourth quarter relative to the first nine months of the year.

Supplementary information (cont'd)

Five year information

Year ended December 31	2007	2006	2005	2004	2003
Statements of earnings (thousands)					
Gross sales	$ 1,103,698	$ 1,087,869	$ 708,725	$ 546,306	$ 408,054
Smelter processing charges and freight	(206,478)	(240,605)	(168,667)	(121,816)	(105,907)
Cost of sales and depreciation[1]	(344,097)	(318,788)	(308,553)	(271,793)	(226,827)
Corporate development and exploration	(9,083)	(9,754)	(8,074)	(6,484)	(4,057)
General and administration[2]	(20,298)	(13,740)	(7,251)	(5,092)	(7,816)
Investment and other income	36,454	47,757	(3,180)	4,196	148,914
Interest expense	(1,693)	(1,619)	(1,952)	(7,207)	(9,784)
Capital tax expense	(609)	(450)	(1,094)	(903)	(1,173)
Income tax expense[1]	(140,085)	(130,017)	(67,939)	(43,278)	(21,487)
Non-controlling interest	(200)	–	–	(14,225)	(8,747)
Net income	$ 417,609	$ 420,653	$ 142,035	$ 79,704	$ 171,170
Cash flow (thousands)					
Cash and short-term investments, beginning of year	$ 640,186	$ 251,895	$ 245,807	$ 230,251	$ 76,532
Cash provided by (used in):					
Operating activities[1,2]	427,351	438,129	168,182	144,099	73,390
Investing activities[1]	(295,765)	(129,445)	(62,634)	(121,584)	123,556
Financing activities[1]	122,246	64,031	(85,009)	(2,988)	(48,623)
Other	(53,195)	15,576	(14,451)	(3,971)	5,396
Cash and short-term investments, end of year	$ 840,823	$ 640,186	$ 251,895	$ 245,807	$ 230,251
Common share statistics					
Net income per share[1]	$ 8.65	$ 8.73	$ 3.22	$ 1.97	$ 4.35
Diluted net income per share[1]	$ 8.64	$ 8.71	$ 3.21	$ 1.90	$ 3.96
Net book value per share at December 31[1,2]	$ 28.84	$ 22.22	$ 12.97	$ 10.35	$ 8.87
Operating cash flow per share[1,2]	$ 8.85	$ 9.09	$ 3.81	$ 3.57	$ 1.87
Dividends per common share	$ 0.20	$ 0.20	$ 0.10	–	–
Number of shares outstanding (thousands)[3]	48,282	48,278	48,097	41,237	39,348
Balance sheets (thousands)[3]					
Current assets	$ 1,040,829	$ 828,721	$ 399,745	$ 353,359	$ 343,964
Property, plant and equipment[1]	870,965	548,637	438,021	302,749	239,738
Investments	32,266	53,002	3,620	2,377	1,714
Other assets[1]	104,405	102,580	86,486	77,480	40,858
	$ 2,048,465	$1,532,940	$ 927,872	$ 735,965	$ 626,274
Current liabilities	$ 185,771	$ 163,106	$ 99,196	$ 151,972	$ 73,812
Long-term debt[2]	234,317	109,080	31,934	16,870	69,375
Reclamation and other liabilities	235,884	187,920	173,118	140,212	133,969
Shareholders' equity[1,2]	1,392,493	1,072,834	623,624	426,911	349,118
	$ 2,048,465	$1,532,940	$ 927,872	$ 735,965	$ 626,274
Current exchange rates[3]					
US dollar relative to Canadian dollar	$ 0.99	$ 1.17	$ 1.16	$ 1.20	$ 1.30
Euro relative to Canadian dollar	$ 1.45	$ 1.54	$ 1.38	$ 1.63	$ 1.63

(1) Years 2003 to 2005 have been restated due to the adoption of Canadian Institute of Chartered Accountants abstract EIC 160 – *Stripping Costs Incurred in the Production Phase of an Operation.*

(2) Years 2003 and 2004 have been restated due to the adoption of Canadian Institute of Chartered Accountants Handbook section 3860, *Financial Instruments.*

(3) As at December 31.

Section 4

Financials

Inmet Mining Corporation
March 10, 2008

The financials contain the audited consolidated financial statements, accounting policies and detailed notes with explanation.

Where to find it

Management's report

Inmet management is responsible for these financial statements and for the information in the Management's discussion and analysis (MD&A).

The MD&A was prepared in accordance with the requirements of the Canadian Securities Administrators, and the consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). In interpreting these requirements, management made decisions about the relevancy of information to be included, and made estimates and assumptions that affect reported information, including estimates about the expected impact of current or anticipated events and transactions. Actual results could differ from these estimates. Information in the MD&A and financial statements is consistent.

Management has a system of internal controls over financial reporting that ensures that financial information is reliable and that the consolidated financial statements are prepared in accordance with Canadian GAAP. Management believes that these controls give reasonable assurance that Inmet's financial records provide a proper basis for preparing the financial statements and other financial information that Inmet's assets are safeguarded, its liabilities are properly accounted for, and that Inmet is in compliance with all of the legal and regulatory requirements that apply to it.

Role of the board of directors

The board of directors reviews and approves our annual MD&A and annual consolidated financial statements, and is responsible for ensuring that management fulfills its financial reporting responsibilities. The board fulfills these oversight responsibilities directly and through its audit committee, whose members are all independent directors. You can find a copy of the audit committee's mandate in our Management Proxy Circular.

Role of the auditors

KPMG LLP, the shareholders' auditors, have audited the consolidated financial statements. They have full and free access to the audit committee, the board of directors and management to discuss audit, financial reporting and related matters.

Richard Ross
Chairman and
Chief Executive Officer

D. James Slattery
Vice-President, Finance and
Chief Financial Officer

February 11, 2008

Auditors' report

To the shareholders of Inmet Mining Corporation:

We have audited the consolidated balance sheets of Inmet Mining Corporation as at December 31, 2007 and 2006, and the consolidated statements of earnings, cash flows, retained earnings, and comprehensive income for the years then ended. These financial statements are the responsibility of Inmet's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Inmet as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 11, 2008

Consolidated financial statements

Consolidated balance sheets

As at December 31 (thousands of Canadian dollars)	2007	2006
Assets		
Current assets:		
Cash and short-term investments (note 2)	$ 840,823	$ 640,186
Restricted cash (note 5)	1,569	–
Accounts receivable	131,197	122,645
Inventories (note 4)	52,725	58,323
Future income tax asset (note 8)	14,515	7,567
	1,040,829	828,721
Restricted cash (note 5)	37,205	35,759
Property, plant and equipment (note 6)	870,965	548,637
Investments (note 7)	32,266	53,002
Future income tax asset (note 8)	7,884	21,750
Deferred charges	–	2,408
Derivatives (note 24)	33,565	–
Other assets (note 9)	25,751	42,663
	$2,048,465	$1,532,940
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 172,800	$ 163,106
Current portion of long-term debt (note 10)	12,971	–
	185,771	163,106
Long-term debt (note 10)	234,317	109,080
Reclamation liabilities (note 11)	84,017	65,812
Derivatives (note 24)	43,960	–
Other liabilities (note 12)	19,249	30,617
Future income tax liability (note 8)	37,084	42,366
Non-controlling interest (note 13)	51,574	49,125
	655,972	460,106
Commitments and contingencies (notes 6 and 15)		
Shareholders' equity		
Share capital (note 16)	337,464	337,338
Contributed surplus (note 17)	60,722	66,999
Stock based compensation (note 18)	1,085	915
Retained earnings	1,076,958	669,385
Accumulated other comprehensive loss (note 20)	(83,736)	(1,803)
	1,392,493	1,072,834
	$2,048,465	$1,532,940

(See accompanying notes)

On behalf of the Board:

Richard A. Ross
Director

Paul E. Gagné
Director

Segmented balance sheets

As at December 31
(thousands of Canadian dollars)

2007	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Assets							
Cash and short-term investments	$ 359,359	$ 333,671	$ 111,492	$ –	$ 13,473	$ 22,828	$ 840,823
Other current assets	23,455	29,384	55,069	23,644	38,162	30,292	200,006
Restricted cash	14,444	–	–	–	11,836	10,925	37,205
Property, plant and equipment	629	115,064	63,147	28,413	63,655	600,057	870,965
Investments	32,266	–	–	–	–	–	32,266
Derivatives	–	–	–	–		33,565	33,565
Other non-current assets	22,343	441	–	6,289	2,101	2,461	33,635
	$ 452,496	$ 478,560	$ 229,708	$ 58,346	$ 129,227	$ 700,128	$2,048,465
Liabilities							
Current liabilities	$ 16,948	$ 39,161	$ 14,560	$ 11,972	$ 21,487	$ 81,643	$ 185,771
Long-term debt	16,267	–	–	–	–	218,050	234,317
Reclamation liabilities	24,393	3,169	13,104	7,662	19,708	15,981	84,017
Derivatives	–	–	–	26,889	9,034	8,037	43,960
Other liabilities	5,057	4,787	–	–	1,412	7,993	19,249
Future income tax liabilities	–	17,723	7,393	–	–	11,968	37,084
Non-controlling interest	–	–	–	–	–	51,574	51,574
	$ 62,665	$ 64,840	$ 35,057	$ 46,523	$ 51,641	$ 395,246	$ 655,972

As at December 31
(thousands of Canadian dollars)

2006	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Assets							
Cash and short-term investments	$ 267,277	$ 176,676	$ 119,260	$ –	$ 44,689	$ 32,284	$ 640,186
Other current assets	9,690	55,776	68,897	18,104	26,157	9,911	188,535
Restricted cash	14,300	–	–	–	10,982	10,477	35,759
Property, plant and equipment	570	117,464	74,873	33,277	42,489	279,964	548,637
Investments	53,002	–	–	–	–	–	53,002
Deferred charges	–	–	–	2,408	–	–	2,408
Other non-current assets	32,052	486	–	6,245	805	24,825	64,413
	$ 376,891	$ 350,402	$ 263,030	$ 60,034	$ 125,122	$ 357,461	$1,532,940
Liabilities							
Current liabilities	$ 11,698	$ 37,879	$ 35,130	$ 19,780	$ 37,391	$ 21,228	$ 163,106
Long-term debt	16,786	–	–	–	–	92,294	109,080
Reclamation liabilities	25,507	3,467	13,175	4,268	17,568	1,827	65,812
Other liabilities	8,035	3,891	–	8,657	1,572	8,462	30,617
Future income tax liabilities	–	20,433	7,025	–	2,186	12,722	42,366
Non-controlling interest	–	–	–	–	–	49,125	49,125
	$ 62,026	$ 65,670	$ 55,330	$ 32,705	$ 58,717	$ 185,658	$ 460,106

Consolidated financial statements (cont'd)

Consolidated statements of earnings

For the years ended December 31 (thousands of Canadian dollars except per share amounts)	2007	2006
Gross sales	$ 1,103,698	$ 1,087,869
Smelter processing charges and freight	(206,478)	(240,605)
Cost of sales	(308,424)	(285,216)
Depreciation	(35,673)	(33,572)
	553,123	528,476
Corporate development and exploration	(9,083)	(9,754)
General and administration	(20,298)	(13,740)
Investment and other income (note 21)	36,454	47,757
Interest expense (note 22)	(1,693)	(1,619)
Capital tax expense	(609)	(450)
Income tax expense (note 23)	(140,085)	(130,017)
Non-controlling interest	(200)	–
Net income	$ 417,609	$ 420,653
Basic net income per common share (note 19)	$ 8.65	$ 8.73
Diluted net income per common share (note 19)	$ 8.64	$ 8.71

(See accompanying notes)

Consolidated statements of retained earnings

For the years ended December 31 (thousanos of Canadian dollars)	2007	2006
Retained earnings, beginning of year, as previously stated	$ 669,385	$ 258,386
Adjustment for adoption of financial instruments accounting standards (note 1)	(381)	–
Retained earnings, restated	669,004	258,386
Net income	417,609	420,653
Dividends on common shares	(9,655)	(9,654)
Retained earnings, end of year	$ 1,076,958	$ 669,385

(See accompanying notes)

Segmented statements of earnings

2007 For the year ended December 31 (thousands of Canadian dollars)	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Gross sales	$ –	$ 418,694	$ 260,246	$ 108,378	$ 316,380	$ –	$ 1,103,698
Smelter processing charges and freight	–	(94,700)	(62,081)	(7,989)	(41,708)	–	(206,478)
Cost of sales	(1,953)	(91,245)	(51,144)	(80,441)	(83,641)	–	(308,424)
Depreciation	–	(8,857)	(8,439)	(10,120)	(8,257)	–	(35,673)
	(1,953)	223,892	138,582	9,828	182,774	–	553,123
Corporate development and exploration	(5,590)	(1,686)	(2,077)	270	–	–	(9,083)
General and administration	(20,298)	–	–	–	–	–	(20,298)
Investment and other income	34,807	(2,004)	–	5,549	(2,850)	952	36,454
Interest expense	(1,693)	–	–	–	–	–	(1,693)
Capital tax expense	(609)	–	–	–	–	–	(609)
Income tax expense	3,302	(46,445)	(30,911)	–	(65,745)	(286)	(140,085)
Non-controlling interest	–	–	–	–	–	(200)	(200)
Net income	$ 7,966	$ 173,757	$ 105,594	$ 15,647	$ 114,179	$ 466	$ 417,609

2006 For the year ended December 31 (thousands of Canadian dollars)	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Gross sales	$ –	$ 370,561	$ 273,848	$ 103,880	$ 339,580	$ –	$ 1,087,869
Smelter processing charges and freight	–	(99,462)	(75,342)	(11,112)	(54,689)	–	(240,605)
Cost of sales	(1,944)	(71,157)	(49,629)	(76,311)	(86,175)	–	(285,216)
Depreciation	–	(7,418)	(8,617)	(10,912)	(6,625)	–	(33,572)
	(1,944)	192,524	140,260	5,545	192,091	–	528,476
Corporate development and exploration	(2,955)	(1,454)	(1,993)	(3,352)	–	–	(9,754)
General and administration	(13,740)	–	–	–	–	–	(13,740)
Investment and other income	46,340	1,417	–	–	–	–	47,757
Interest expense	(1,619)	–	–	–	–	–	(1,619)
Capital tax expense	(450)	–	–	–	–	–	(450)
Income tax expense	(2,200)	(25,846)	(32,078)	–	(69,893)	–	(130,017)
Net income	$ 23,432	$ 166,641	$ 106,189	$ 2,193	$ 122,198	$ –	$ 420,653

Consolidated financial statements (cont'd)

Consolidated statements of cash flows

For the years ended December 31 (thousands of Canadian dollars)	2007	2006
Cash provided by (used in) operating activities		
Net income	$ 417,609	$ 420,653
Add (deduct) items not affecting cash:		
Gain on disposition of investments (note 21)	(11,730)	(24,291)
Depreciation	35,673	33,572
Future income tax (note 23)	(5,724)	(11,823)
Loss on settlement of pension liability (note 21)	2,034	–
Accretion expense on reclamation liabilities (note 11)	3,609	3,500
Deferred revenue	–	3,126
Non-controlling interest	200	–
Other	10,439	(126)
Reclamation expenditures (note 11)	(3,410)	(2,519)
Net change in non-cash working capital (note 3)	(21,349)	16,037
	427,351	438,129
Cash provided by (used in) investing activities		
Capital spending	(345,892)	(132,799)
Acquisition and disposition of investments, net (note 7)	50,170	2,105
Purchase of short-term investments (note 2)	(64,949)	(254,826)
Other	(43)	1,249
	(360,714)	(384,271)
Cash provided by (used in) financing activities		
Long-term debt borrowings		
Borrowings (note 10)	97,537	72,921
Repayment (note 10)	(8,604)	–
Funding by non-controlling shareholder	55,805	13,317
Financial assurance deposits (note 5)	(4,164)	(11,718)
Dividends paid on common shares	(9,655)	(9,654)
Settlement of pension liability (note 14)	(3,266)	–
Other	(5,407)	(835)
	122,246	64,031
Foreign exchange change on cash held in foreign currency	(50,988)	14,826
Increase in cash	137,895	132,715
Cash:		
Beginning of year	384,610	251,895
End of year	522,505	384,610
Short-term investments	318,318	255,576
Cash and short-term investments	$ 840,823	$ 640,186

(See accompanying notes)

Segmented statements of cash flows

2007 For the year ended December 31 (thousands of Canadian dollars)	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Cash provided by (used in) operating activities							
Before net change in non-cash working capital	$ (1,583)	$ 191,754	$ 114,982	$ 19,584	$ 123,963	$ –	$ 448,700
Net change in non-cash working capital	(7,210)	22,773	(6,470)	(4,935)	(25,507)	–	(21,349)
	(8,793)	214,527	108,512	14,649	98,456	–	427,351
Cash provided by (used in) investing activities							
Capital spending	(191)	(26,073)	(3,451)	(1,742)	(31,527)	(282,908)	(345,892)
Acquisition and disposition of investments, net	50,170	–	–	–	–	–	50,170
Other	–	–	–	(43)	–	–	(43)
Purchase of short-term investments	(90,940)	16,113	–	–	9,878	–	(64,949)
	(40,961)	(9,960)	(3,451)	(1,785)	(21,649)	(282,908)	(360,714)
Cash provided by (used in) financing activities	(14,472)	–	–	(4,000)	(1,609)	142,327	122,246
Foreign exchange change on cash held in foreign currency	–	(40,362)	(4,405)	–	(7,375)	1,154	(50,988)
Intergroup funding (distributions)	65,368	10,271	(108,424)	(8,864)	(88,322)	129,971	–
Increase (decrease) in cash	1,142	174,476	(7,768)	–	(20,499)	(9,456)	137,895
Cash:							
Beginning of year	39,899	159,195	119,260	–	33,972	32,284	384,610
End of year	41,041	333,671	111,492	–	13,473	22,828	522,505
Short-term investments	318,318	–	–	–	–	–	318,318
Cash and short-term investments	$ 359,359	$ 333,671	$ 111,492	$ –	$ 13,473	$ 22,828	$ 840,823

Financials

Consolidated financial statements (cont'd)

Segmented statements of cash flows (cont'd)

2006 For the year ended December 31 (thousands of Canadian dollars)	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Cash provided by (used in) operating activities							
Before net change in non-cash working capital	$ (3,530)	$ 163,616	$ 115,832	$ 17,394	$ 128,780	$ –	$ 422,092
Net change in non-cash working capital	(8,244)	8,952	(6,600)	96	21,833	–	16,037
	(11,774)	172,568	109,232	17,490	150,613	–	438,129
Cash provided by (used in) investing activities							
Capital spending	(94)	(19,987)	(5,760)	(2,665)	(11,110)	(93,183)	(132,799)
Acquisition and disposition of investments, net	–	–	2,105	–	–	–	2,105
Purchase of short-term investments	(227,378)	(17,016)	–	–	(10,432)	–	(254,826)
Other	1,629	–	–	(380)	–	–	1,249
	(225,843)	(37,003)	(3,655)	(3,045)	(21,542)	(93,183)	(384,271)
Cash provided by (used in) financing activities	(12,881)	–	–	–	(1,712)	78,624	64,031
Foreign exchange change on cash held in foreign currency	–	3,149	11,545	–	(1,045)	1,177	14,826
Intergroup funding (distributions)	166,554	(16,097)	(56,000)	(14,445)	(108,373)	28,361	–
Increase (decrease) in cash	(83,944)	122,617	61,122	–	17,941	14,979	132,715
Cash:							
Beginning of year	123,843	36,578	58,138	–	16,031	17,305	251,895
End of year	39,899	159,195	119,260	–	33,972	32,284	384,610
Short-term investments	227,378	17,481	–	–	10,717	–	255,576
Cash and short-term investments	$ 267,277	$ 176,676	$ 119,260	$ –	$ 44,689	$ 32,284	$ 640,186

Consolidated statement of comprehensive income

For the years ended December 31 (thousands of Canadian dollars)	2007	2006
Net income	$ 417,609	$ 420,653
Other comprehensive income (loss) for the period:		
Changes in fair value of gold forward sales contracts (net of income taxes of $3)	(8,576)	–
Changes in fair value of interest rate swap contracts[1]	(3,929)	–
Changes in fair value of foreign exchange forward contracts[2]	8,264	–
Changes in fair value of investments (net of income taxes of $2,308)	23,202	–
Currency translation adjustments	(88,296)	40,640
Reclassification to net income of gains/losses realized on:		
Gain on sale of investment (note 21)	(11,730)	–
Troilus gold hedges loss	21,238	–
Amortization of deferred Troilus gold hedges	(5,549)	–
Ok Tedi gold hedges loss	3,595	–
Foreign exchange loss on reduction of net investment in self-sustaining foreign operations (note 21)	5,394	3,286
	(56,387)	43,926
Comprehensive income	$ 361,222	$ 464,579

(See accompanying notes)

1. Net of income taxes of $2,407 and non-controlling interest of $1,684.

2. Net of income taxes of $5,059 and non-controlling interest of $3,542.

Financials

Notes to the consolidated financial statements

1. Significant accounting policies

Basis of presentation and consolidation

We have prepared our consolidated financial statements according to Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all of the companies we control. We proportionally consolidate our share of the financial statements of our joint venture interests. All significant intercompany balances and transactions are eliminated on consolidation.

Investments in companies that we do not control or have a significant influence in are carried at cost.

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.

Basis of segmented disclosure

The segmented statements reflect the management structure of our company. Operations are managed independently mainly because of their geographical diversity. Each operation retains its own management team and compiles its own financial information, following the accounting policies outlined here.

- *Çayeli* — a mine in Turkey that produces copper and zinc concentrates. Çayeli is a wholly-owned subsidiary.
- *Pyhäsalmi* — a mine in Finland that produces copper and zinc concentrates. Pyhäsalmi is a wholly-owned subsidiary.
- *Troilus* — a mine in Quebec that produces gold. Troilus is a division of Inmet Mining.
- *Ok Tedi* — a company in Papua New Guinea that owns a copper and gold mine. We have an 18 percent joint venture interest in Ok Tedi.
- *Las Cruces* — a high grade copper deposit in Spain that we are currently developing. We have a 70 percent interest in Las Cruces.

The US dollar is the functional currency of Çayeli and Ok Tedi, and the euro is the functional currency of Pyhäsalmi and Las Cruces. The Canadian dollar is the functional currency of Troilus and Corporate.

Using estimates

When preparing financial statements according to GAAP, we make estimates and assumptions about the:

- reported amounts of revenues and expenses
- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities.

Management regularly reviews the estimates and assumptions used when preparing the financial statements, but actual results could be different from these estimates.

Recognizing revenues

We recognize revenue when title is legally transferred to the purchaser. The timing of title transfer varies depending on the terms of the sales contracts with smelters. Title is typically transferred when the material is delivered or, in some cases, when it is shipped.

Revenue includes the sale of all concentrate and gold doré. Most sales contracts set the sales price based on a specified future date. To calculate the revenue from the sale of our products, we use the forward price of the commodity on the date it is expected to settle. We then adjust revenue to account for the actual market price we receive when the contract is settled.

Changes in accounting policy

We adopted the following new CICA Handbook sections as of January 1, 2007:

- CICA 1506 — Accounting changes
- CICA 3855 — Financial instruments – recognition and measurement
- CICA 3865 — Hedges
- CICA 1530 — Comprehensive income

Sections 3855, 3865 and 1530 do not permit us to restate prior periods.

We early-adopted the following new CICA Handbook sections as of December 31, 2007:

- CICA 1535 — Capital disclosures
- CICA 3862 — Financial instruments disclosures
- CICA 3863 — Financial instruments presentation

Section 1506 — Accounting changes

This section specifies that a voluntary change in accounting principles can only be made if the change results in more reliable and relevant information. If a change is made, then prior periods must be restated and the reasons for the change must be disclosed. If it is a change to an estimate, the nature and amount of the change must also be described.

We have not made any voluntary changes in accounting principles since we adopted these standards.

Section 3855 — Financial instruments – recognition and measurement

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires us to recognize financial assets and liabilities, including derivatives, on the balance sheet when we become a party to the contractual provisions of a financial instrument or a non-financial derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Fair value is the amount at which an item could be exchanged between willing parties.

Measurement in subsequent periods depends on whether the financial instruments have been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Note 24(a) sets out our classification of financial instruments and the accounting principles followed in accounting for each of these.

Section 3865 — Hedges

This section specifies when and how we can use hedge accounting for the following hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

We only have cash flow hedging relationships. On January 1, 2007, we continued to designate our existing derivative contracts related to gold forward sales contracts at Troilus and Ok Tedi, the foreign exchange forward contract and the interest rate swap contract at Las Cruces, as part of cash flow hedge relationships. The fair values of these contracts are recorded on the balance sheet.

Our accounting policy for derivatives and hedging relationships is described in note 24(c).

Section 1530 — Comprehensive income

This section calls for a statement of comprehensive income and its components. Other comprehensive income includes unrealized gains and losses on our investments, unrealized foreign currency translation arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

The principal changes to our 2006 accounting policies for financial instruments were the requirements to record certain non-financial contracts and our investments at fair value, determine an accounting policy with respect to treatment of transaction costs, and include the foreign currency translation impact of our net investments in self-sustaining foreign operations in accumulated other comprehensive income. The table on the next page shows the changes in further detail.

Section 1535 — Capital disclosures

This section establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed in order to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Our disclosure is included in note 16.

Section 3862 — Financial instruments disclosures

This section outlines disclosure requirements for financial instruments and places increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments and how these risks are managed. We have chosen to adopt the requirements of this section in our 2007 financial statements (note 24), which is earlier than required.

3863 — Financial instruments presentation

This section carries forward the presentation requirements from Section 3861 – *Financial instruments – disclosure and presentation.* Adopting this standard in place of the presentation requirements in 3861 did not have an impact on our 2007 financial statements.

Notes to the consolidated financial statements (cont'd)

The table below shows you the effect of adopting Sections 3855, 3865 and 1530 on our balance sheet as at January 1. We have not restated prior periods.

(thousands of Canadian dollars)	December 31, 2006 As reported	January 1, 2007 Adjustments on adoption of new standards	Ref	January 1, 2007 Restated opening balances
Assets				
Current assets:				
Cash and short-term investments	$ 640,186	$ –	a	$ 640,186
Accounts receivable	122,645	–	a	122,645
Inventories	58,323	–		58,323
Future income tax asset	7,567	–		7,567
	828,721	–		828,721
Restricted cash	35,759	–		35,759
Property, plant and equipment	548,637	13,795	b	562,432
Investments	53,002	3,677	c	56,679
Future income tax asset	21,750	(5,696)	e	16,054
Deferred charges	2,408	(2,408)	d	–
Derivatives	–	17,965	d	17,965
Other assets	42,663	(13,795)	b	28,868
	$1,532,940	$ 13,538		$1,546,478
Liabilities				
Accounts payable and accrued liabilities	$ 163,106	$ (5,444)	a,d	$ 157,662
Long-term debt	109,080	–	a	109,080
Reclamation liabilities	65,812	–		65,812
Derivatives	–	51,494	d	51,494
Other liabilities	30,617	(7,958)	d	22,659
Future income tax liabilities	42,366	(2,166)	e	40,200
Non-controlling interest	49,125	3,539	e	52,664
	460,106	39,465		499,571
Shareholders' equity				
Share capital	337,338	–		337,338
Contributed surplus	66,999	–		66,999
Stock based compensation	915	–		915
Retained earnings	669,385	(381)	e	669,004
Accumulated other comprehensive loss	–	(27,349)	e	(27,349)
Foreign currency translation account	(1,803)	1,803	f	–
	1,072,834	(25,927)		1,046,907
	$1,532,940	$ 13,538		$1,546,478

(a) The carrying values for cash, accounts receivable and accounts payable approximated fair value because of their short terms to maturity, and we did not make any adjustments to the opening values. The carrying value of our long-term debt approximated amortized cost, and we did not make any adjustments to the opening values.

(b) We reclassified the cost of issuing debt for the Las Cruces credit facility to *Property, plant and equipment*. These costs were previously capitalized as *Other assets*.

(c) We have designated investments we previously accounted for at cost as *available for sale*, and recorded them at fair value.

(d) We have reflected derivatives that were previously off balance sheet at fair value. We have recorded the accumulated ineffective portion of the hedges in opening retained earnings. Deferred amounts related to hedging of Troilus gold production have been included in *Accumulated other comprehensive loss*.

(e) All adjustments are net of tax and non-controlling interest.

(f) We have reclassified the foreign currency translation account to *Accumulated other comprehensive loss*

Other significant accounting policies

Cash and short-term investments	see note 2
Inventories	see note 4
Restricted cash	see note 5
Property, plant and equipment	see note 6
Investments	see note 7
.ncome taxes	see notes 8 & 23
Reclamation costs	see note 11
Employee future benefits	see note 14
Stock based compensation	see note 18
Earnings per share	see note 19
Translation of foreign currencies	see note 20
Financial instruments	see note 24

Recently issued accounting pronouncement

In June 2007, the CICA issued Section 3031 — *Inventories*. This section requires companies to record their inventory at the lower of cost or net realizable value. This is our current accounting policy. The section also provides additional guidance relating to the allocation of fixed production overhead, requires consistent use of either first-in, first-out or weighted average to measure inventories, and requires that any previous write-downs be reversed when the value of inventories increases. The amount of the reversal is limited to the amount of the original write-down. This section applies to us as of January 1, 2008. We are currently assessing the impact that this change in accounting policy will have on our consolidated financial statements.

2. Cash and short-term investments

Cash includes cash and money market instruments that mature in 90 days or less from the date of acquisition. Short-term investments mature in 91 days to a year. At December 31, our cash and short-term investments are held in:

	2007	2006
Cash:		
Liquidity funds	$ 424,390	$ –
Term deposits	22,186	313,054
Corporate	–	15,203
Overnight deposits	50,822	35,386
Other	25,549	20,967
	522,947	384,610
Short-term investments:		
Federal and crown corporation investments	317,876	188,411
Corporate	–	38,967
Term deposits	–	28,198
	317,876	255,576
Total cash and short-term investments	$ 840,823	$ 640,186

In the consolidated statements of cash flows, we disclose:

- short-term investments we buy with cash during the year as cash used in investing activities
- short-term investments we sell to generate cash as a source of cash from investing activities.

Notes to the consolidated financial statements (cont'd)

3. Statements of cash flows

The tables below show the components of our net change in non-cash working capital by segment for the years ended December 31, 2007 and 2006.

2007	Corporate	Çayeli	Pyhäsalmi	Troilus	Ok Tedi	Total
Accounts receivable	$ (4,814)	$ 17,032	$ 14,383	$ (7,685)	$ (14,877)	$ 4,039
Inventories	–	557	(853)	1,814	(1,362)	156
Accounts payable and accrued liabilities	5,927	(2,707)	94	936	2,528	6,778
Taxes payable	(3,905)	7,920	(20,094)	–	(8,450)	(24,529)
Other	(4,418)	(29)	–	–	(3,346)	(7,793)
	$ (7,210)	$ 22,773	$ (6,470)	$ (4,935)	$ (25,507)	$ (21,349)

2006	Corporate	Çayeli	Pyhäsalmi	Troilus	Ok Tedi	Total
Accounts receivable	$ (6,017)	$ (9,038)	$ (20,271)	$ 2,667	$ 15,199	$ (17,460)
Inventories	–	(4,497)	591	(1,389)	(60)	(5,355)
Accounts payable and accrued liabilities	276	16,980	440	(1,182)	5,085	21,599
Taxes payable	446	5,504	12,640	–	1,758	20,348
Other	(2,949)	3	–	–	(149)	(3,095)
	$ (8,244)	$ 8,952	$ (6,600)	$ 96	$ 21,833	$ 16,037

We paid $174 million in taxes in 2007 and $120 million in 2006. We paid $7 million in interest in 2007 and $1 million in 2006.

4. Inventories

	2007	2006
Finished goods inventory	$ 23,374	$ 29,717
Materials and supplies	27,249	27,415
Stockpiled ore	2,102	1,191
	$ 52,725	$ 58,323

Finished goods are inventories of concentrate and gold doré that are ready for sale but where title has not yet been transferred to the purchaser. We value finished goods and stockpiled ore at the lower of cost or net realizable value. Cost includes any cost directly related to bringing the inventory to its current condition and location such as mining, milling, transport costs and depreciation. We value materials and supplies at the lower of average cost or replacement cost. We classify inventories of stockpiled ore that are not expected to be processed in the next year as *Other assets*.

5. Restricted cash

Restricted cash includes cash that has been pledged for other uses and is not available for immediate disbursement. The table below shows our restricted cash balances at December 31.

	2007	2006
Collateralized cash for Inmet Mining letter of credit facility (note 15)	$ 14,444	$ 14,300
In trust for Ok Tedi rehabilitation (note 11)	11,836	10,982
Collateralized cash for letters of credit — Las Cruces (note 15)	12,494	10,477
Less current portion:		
Collateralized cash for letters of credit — Las Cruces	(1,569)	–
	$ 37,205	$ 35,759

6. Property, plant and equipment

	2007	2006
Cost		
Property	$ 95,604	$ 108,472
Plant and equipment	329,472	299,228
Deferred development	614,485	288,949
	1,039,561	696,649
Accumulated depreciation		
Property	(33,542)	(30,056)
Plant and equipment	(135,054)	(117,956)
	$ 870,965	$ 548,637

Property

We record property at cost and depreciate it using the unit-of-production method, where the value of the property is reduced as reserves are depleted.

Capitalized stripping

We capitalize the costs of stripping, such as the removal of overburden and mine waste materials, when the stripping provides access to reserves that would not otherwise have been accessible and that will be mined in the future. Stripping costs are amortized over the reserves that are directly affected by the stripping activity.

Plant and equipment

We record plant and equipment at cost and depreciate it using the straight-line method over its estimated useful life, which ranges from five to 14 years. We review useful lives regularly and adjust, if necessary.

Deferred development and exploration

We charge exploration costs to earnings in the year we incur the costs. When we can reasonably foresee that the development of a property will have future economic benefit, supported by feasibility studies, we defer costs associated with its development. This includes capitalizing interest costs on funds we borrow and, effective January 1, 2007, transaction costs related to issuing debt specifically for the development of the property while construction is in progress. Once construction of an asset is substantially complete and is ready for its intended use, we stop deferring all costs and reclassify them to property, plant and equipment.

Notes to the consolidated financial statements (cont'd)

The table below shows the carrying amount for development projects at December 31. Capitalized costs for a project in development are not depreciated.

	2007	2006	Targeted timing of production start-up
Las Cruces	$ 600,056	$ 279,964	2008
Cerattepe	14,429	8,985	2009
	$ 614,485	$ 288,949	

At Las Cruces, we capitalized $13.1 million of interest to deferred development this year and $3.7 million in 2006.

Impairment evaluations — operating mines and development projects

We test for impairment when events or a change in circumstances suggest that we may not recover the carrying value of our property, plant and equipment.

We determine if we have a potential impairment by deducting the undiscounted future cash flows from an operation or development property from its carrying value. When the carrying value of an asset exceeds its undiscounted cash flows, we reduce its carrying value to its fair value and record a loss.

Our estimate of future undiscounted cash flows includes our estimates of:

- recoverable mineral reserves
- value beyond proven and probable reserves
- future metal prices
- future foreign exchange rates
- future operating, capital and reclamation costs.

We may also look at:

- our ability to obtain financing for a project
- recovery of costs by selling the property.

Capital commitments

Our operations have the following capital commitments as at December 31, 2007:

Ok Tedi has committed approximately $55.4 million (our proportionate share is $10.0 million) to capital expenditures for the mine waste tailings project.

Las Cruces has committed $142.7 million for engineering, procurement and construction management and additional construction work related to the pit and plant.

Çayeli has committed $1.7 million for the purchase of mining equipment.

Cerattepe has committed approximately $10.0 million for construction of a ropeway.

7. Investments

The table below shows our investments.

	December 31, 2007 (fair value)	January 1, 2007 (fair value — adjusted)	December 31, 2006 (historical cost — as reported)
Wolfden Resources Inc (notes 21 and 24)	$ –	$ 39,690	$ 39,705
Premier Gold Mines Ltd (notes 21 and 24)	22,680	13,041	10,920
Other	9,586	3,948	2,377
	$ 32,266	$ 56,679	$ 53,002

We calculate fair value using the bid price of the investment as quoted in an active market. We record changes in the fair value of our investments net of tax in *Other comprehensive income*. The change in fair value of an investment appears in net income only when it is sold or impaired.

We capitalize transaction costs related to investments we make, and include these in the investment's initial carrying value. We review our investments for impairment based on both quantitative and qualitative criteria, including the extent that cost exceeds market value, the length of a market decline, our plans and ability to hold the investment until forecasted recovery and the financial health of the issuer.

8. Future income taxes

The table below shows the significant components of our future income tax asset.

	2007	2006
Capital losses	$ 5,725	$ 8,074
Capital assets	60,028	57,167
Canadian resource deductions	11,803	29,382
Non-capital losses[1]	2,461	10,758
Reclamation liabilities	7,854	9,520
Other	12,774	9,606
Future income tax asset before valuation allowance	100,645	124,507
Valuation allowance	(78,246)	(95,190)
Future income tax asset	22,399	29,317
Less current portion	14,515	7,567
	$ 7,884	$ 21,750

1. Expire from 2010 to 2021.

The future income tax asset (before valuation allowance) of $100 million includes $94 million from Canadian sources and $6 million from foreign sources. Our ability to realize this asset depends on future taxable income and taxable capital gains. We assess the likelihood of recovery of these losses, and when it is more likely than not that we will use part of the losses we establish a future tax asset. At December 31, 2007, we recognized a future income tax asset of $22 million, and have therefore provided a valuation allowance of $78 million against the $100 million asset.

The table below shows the significant components of our future income tax liabilities at our foreign operations.

	2007	2006
Capital	$ 37,718	$ 48,175
Reclamation liabilities	(634)	(5,809)
Future income tax liability	$ 37,084	$ 42,366

Calculating future income taxes

We calculate future income tax assets and liabilities based on temporary differences between the carrying amounts in our balance sheet and their tax bases, using income tax rates expected to be in effect when the temporary differences are likely to be settled. We include the effects of changes in tax rates in income when the change is enacted or substantively enacted. We reduce future income tax assets by a valuation allowance if we determine it is more likely than not that the assets will not be realized.

9. Other assets

	2007	2006
Investment in Petaquilla	$ 16,725	$ 16,725
Debt issue costs	–	13,795
Troilus stockpiled ore (note 4)	6,289	6,245
Corporate pension asset (note 14)	1,515	1,401
Other	1,222	4,497
	$ 25,751	$ 42,663

On adoption of CICA section 3855 on January 1, 2007, we reclassified the cost of issuing debt for the Las Cruces credit facility to *Property, plant and equipment.*

Notes to the consolidated financial statements (cont'd)

10. Long-term debt

	2007	2006
Credit facility:		
— Tranche A	$ 125,776	$ 53,792
— Tranche B	34,656	23,054
Promissory note	16,267	16,786
Loans from non-controlling shareholder	70,589	15,448
	247,288	109,080
Less current portion:		
Credit facility — Tranche B	(12,971)	–
	$ 234,317	$ 109,080

Las Cruces credit facility

Las Cruces has entered into a credit agreement with a syndicate of Canadian and international lending institutions to finance the development of the mine.

The credit facility consists of two tranches:

- Tranche A is a US $240 million senior secured facility that matures on December 15, 2015 and contains a US $25 million letter of credit facility. Interest is at LIBOR plus a margin of 1.5 percent and 2.0 percent for funds drawn in US dollars and EURIBOR plus the same margins for funds drawn in euros. Borrowing under Tranche A will be repaid in US dollars, in semi-annual payments over seven years. Repayments will begin on June 30, 2009 or six months after project completion (as defined in the agreement), whichever is earlier. During the repayment period, Las Cruces must also make additional payments to a maximum of US $36 million, when its debt coverage ratio under the credit agreement goes above a certain threshold.
- Tranche B is a €69 million senior secured bridge financing facility that expires on December 31, 2009. It provides financing until the government subsidies and value added taxes (VAT) for the project have been received. Interest is at EURIBOR plus 1.0 percent. Repayments for Tranche B are due within 30 days of Las Cruces receiving subsidy payments and VAT refunds. Tranche B must be fully repaid by December 31, 2009.

During 2007, Las Cruces borrowed €52 million under Tranche A, borrowed €15 million under Tranche B, and repaid €6 million under Tranche B, which is equal to the amount of the VAT refunds received. In 2006, Las Cruces borrowed €35 million under Tranche A and €15 million under Tranche B. Las Cruces expects to repay €9 million of the outstanding borrowing under Tranche B in 2008, for VAT refunds.

Inmet Mining and Leucadia National Corporation (Leucadia), a 30 percent shareholder in Las Cruces, have provided guarantees in proportion to their indirect holdings in Las Cruces until the project is complete (as defined in the credit agreement) and Tranche B is repaid. At that time, the project financing will be non-recourse to the project sponsors. The Inmet Mining guarantee contains customary terms and conditions including a requirement to maintain certain financial ratios. It is secured by a pledge of the assets of Inmet Mining and the shares of certain subsidiaries. These assets and shares have also been pledged to secure Inmet Mining's existing hedging facilities and will continue to be pledged, after project completion is reached (as defined under the agreement), and Tranche B of the agreement is repaid, to secure any remaining obligations under the hedging facilities. At December 31, 2007, we were in compliance with all of the terms and conditions of the credit agreement.

Ok Tedi credit facility

Ok Tedi has a credit facility for US $75 million, which it can use for general corporate purposes subject to certain restrictions. Our proportionate share is US $13.5 million. The facility bears interest at LIBOR plus 2.5 percent and is collateralized by a percentage of Ok Tedi's inventories and accounts receivable. As of December 31, 2007, Ok Tedi had not borrowed against this facility.

Promissory note

As part of the purchase of Pyhäsalmi, we issued a €14 million unsecured promissory note. The note was for a 10-year term at an interest rate of 6 percent. We recorded the note at €9 million ($12.7 million), which was its fair value on the date of issue (in March 2002). In October 2003, we amended our promissory note agreement, extending the note's maturity date to October 3, 2013. We received a payment of $0.9 million, which we will recognize in income over the term of loan. We are not required to repay any of the principal until the note matures.

Loans from non-controlling shareholder

Las Cruces has intercompany loans with an affiliate in which Leucadia holds a 30 percent interest. Seventy percent of these loans are owed to Inmet and do not appear on the consolidated balance sheet.

Las Cruces has intergroup promissory note agreements providing for loans of up to €285 million. The notes bear interest at EURIBOR plus 8.55 percent and expire on February 25, 2020. Interest payments are due quarterly. During 2007, we advanced €90.3 million (€21.8 million in 2006) to Las Cruces under the agreements and Leucadia advanced €38.7 million (€9.3 million in 2006). Leucadia's portion of the advances to December 31, 2007 totals €48.8 million (€10.1 million in 2006) and is classified as long-term debt.

11. Reclamation liabilities

The table below shows our total reclamation liability.

	2007	2006
Present value of future water treatment costs	$ 17,000	$ 17,000
Obligations at closed properties	11,393	12,506
Obligations at operating and mines under development	59,624	40,306
	88,017	69,812
Less current portion, included in accounts payable	4,000	4,000
	$ 84,017	$ 65,812

The table below shows how our reclamation liability changed during the year.

	2007	2006
Opening balance at January 1	$ 65,812	$ 65,132
Liabilities settled	(3,410)	(2,519)
Accretion expense charged through cost of sales	3,609	3,500
Addition to site reclamation		
Las Cruces	14,434	1,827
Ok Tedi	4,316	–
Troilus	3,183	–
Foreign exchange	(3,927)	(2,128)
Closing balance at December 31	$ 84,017	$ 65,812

Our closed mines, operations and joint ventures are subject to environmental laws and regulations in Canada and the other countries we operate in.

Mining companies are legally obligated to reclaim land or other property that is damaged or contaminated in the course of their business activities. While reclamation activities usually happen after the site has been closed, companies are required to estimate reclamation costs for operating sites as well as closed sites.

Operating sites

We incur asset retirement obligations through the construction and normal operation of our mines. We recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When we record a liability, we record a corresponding increase in the carrying amount of the related asset (where we can identify one). We increase the amount of the liability every year by the interest factor that was applied when we initially determined fair value, and we amortize the asset over its estimated life. We also reassess the amount of the liability at each reporting period, and make adjustments, if any, to both the liability and its related asset.

During 2007, we recorded additional liabilities of $14.4 million at Las Cruces ($1.8 million in 2006) as a result of development activities that took place during the year. On December 31, 2007, we recognized additional liabilities of $4.3 million at Ok Tedi and $3.2 million at Troilus mainly because of cost escalation.

Closed sites

For closed properties, we record any change in fair value over the course of the year in income.

Notes to the consolidated financial statements (cont'd)

Estimated reclamation liabilities

We estimate that we need $137 million in undiscounted cash flows to settle these liabilities, payable over approximately the next 17 years. We discount cash flows at interest rates that range from three percent to seven percent, depending on a number of factors, including the duration of the obligation and the jurisdiction where the obligation is owed. If we increase undiscounted cash flows, we discount the additional cash flows using a current credit adjusted risk free rate. If we lower our estimate of undiscounted cash flows, we discount future cash flows at the discount rates we used when we initially established the liability.

Funding

At most of our properties, reclamation activities are funded when they are incurred. Ok Tedi sets aside cash in a trust account every year for future rehabilitation activities. At December 31, 2007, our share of Ok Tedi's cash set aside was $11.8 million ($11.0 million in 2006) (note 5).

Using estimates

Due to uncertainties around environmental remediation, the actual cost of site restoration could be different from the amounts estimated. Our estimates can also change because of changes to the laws and regulations that govern them, and as new information about our operations becomes available. We also cannot predict the impact that environmental laws and regulations that may be enacted in the future could have on our financial position. We will record any changes in the total estimated reclamation liability that arise from changes in requirements, laws, regulations and operating decisions, as a change in accounting estimates to be applied prospectively.

12. Other liabilities

	2007	2006
Las Cruces subsidies (note 15)	$ 7,993	$ 8,462
Compensation obligations	10,465	9,725
Deferred revenue (note 24)	–	7,958
US pension liabilities (note 14)	–	2,829
Government assistance obligation	–	700
Other	791	943
	$ 19,249	$ 30,617

Compensation obligations

Compensation obligations include:

- obligations to employees whose employment is terminated
- obligations for long service leave available to employees who have met certain requirements, including length of employment
- obligations related to a supplementary executive retirement plan for a former executive that are secured by a letter of credit.

Government assistance obligation

We received a $4.7 million government loan during the construction of the Troilus project, and repaid $4 million of it in 2007. The remaining $0.7 million is due June 2008 and recorded in accounts payable.

13. Non-controlling interest

The table below shows the change in non-controlling interest related to Las Cruces for the years ended December 31.

	2007	2006
Opening balance	$ 49,125	$ 27,124
Impact of adoption of CICA 3855 — fair value of derivatives, January 1, 2007	3,539	–
Changes in fair values of derivatives	2,058	–
Capitalization of non-controlling shareholder loans	–	17,365
Foreign exchange and other	(3,148)	4,636
Closing balance at December 31	$ 51,574	$ 49,125

Capitalization of non-controlling shareholder loans

At the beginning of 2006, Las Cruces had intercompany loans of US $35 million under a line of credit, and a €11 million loan. In February 2006, we converted both loans, including principal and accrued interest, to equity, and reclassified the non-controlling portion of those loans, €12.6 million, from long-term debt to non-controlling interest.

14. Pension plans

We provide the following retirement benefits for employees:

- Canada: defined contribution and defined benefit plans
- United States: a defined benefit plan that is maintained by a subsidiary
- Papua New Guinea: a defined contribution plan that is maintained by Ok Tedi.

The other jurisdictions we operate in either have state pension arrangements or receive no pension benefits.

Defined contribution plans

Certain employees take part in the defined contribution employee benefit plans. The costs of these plans represent our required contributions based on specified percentages of salaries. For certain executives, our total contribution to the defined contribution component of the registered plan including the annual cash payment in lieu of a supplementary pension plan is equivalent to nine to 12 percent of the salary and bonus of the executives.

Our contributions to defined contribution plans include:

- service costs for the Canadian plan. These were $1.5 million in 2007 and $1.5 million in 2006
- our share of Ok Tedi's service costs. This was $0.6 million in 2007 and $0.8 million in 2006.

We expense these amounts as they come due.

Notes to the consolidated financial statements (cont'd)

Defined benefit plans

Our Canadian defined benefit pension plan covers certain of our current and former employees. These provide benefits to employees based on a number of factors, including years of service, and the highest average rate of pay over a specified period, or a stated amount for each year of service, as specified in the plan agreements. We terminated our US defined benefit plan this year.

The table below shows our pension expense for these plans.

	Canadian plan		US plan	
	2007	2006	2007	2006
Expected return on pension fund assets	$ (294)	$ (266)	$ (1,270)	$ (1,158)
Current service cost including administration	133	222	204	180
Interest cost on accrued benefit obligations	230	291	1,159	1,204
Settlement of pension liability	–	–	2,034	–
Net amortization, deferrals and other	(45)	17	(93)	(226)
Net pension expense	$ 24	$ 264	$ 2,034	$ –

Settlement of pension liability:

- We settled our US defined benefit pension liability this year by buying annuities for retirees in the plan. We purchased the annuities using the assets of the plan with a fair value at the time of settlement of US $16.3 million and a cash payment of US $3.3 million. We recorded a $2.0 million loss on settlement of the US pension plan in *Investment and other income* (note 20), representing the difference between the US $3.3 million payment made and the liability we had recorded of $1.2 million.

Net amortization, deferrals and other includes:

- amortization of actuarial gains and losses that are more than 10 percent of the accrued benefit obligation or the fair value of plan assets, whichever is greater. We amortize actuarial gains or losses over the average remaining life expectancy of participants
- amortization of the transitional asset on a straight-line basis.

Plan assets

	Canadian plan		US plan	
	2007	2006	2007	2006
Fair value of plan assets, beginning of year	$ 5,297	$ 3,844	$ 17,808	$ 15,460
Actual gain on plan assets	406	530	1,273	1,606
Employer contribution	137	1,465	4,798	2,156
Benefits paid	(1,239)	(542)	(1,479)	(1,508)
Settlement of pension liability	–	–	(21,007)	–
Foreign exchange	–	–	(1,393)	94
Fair value of plan assets, end of year	$ 4,601	$ 5,297	$ –	$ 17,808
Composition of plan assets by percentage:				
Bonds	34%	34%	–	40%
Equity	60%	62%	–	60%
Cash	6%	4%	–	–%
	100%	100%	–	100%

Benefit obligations

	Canadian plan		US plan	
	2007	2006	2007	2006
Accrued benefit obligation, beginning of year	$ 4,516	$ 5,335	$ 22,532	$ 23,252
Settlement of pension liability	–	–	(21,007)	–
Current service cost	133	222	204	180
Interest cost	230	291	1,159	1,204
Actuarial loss (gain)	56	(790)	196	(624)
Benefits paid	(1,239)	(542)	(1,479)	(1,508)
Foreign exchange	–	–	(1,605)	28
Accrued benefit obligation, end of year	$ 3,696	$ 4,516	$ –	$ 22,532

Actuaries determine the present value of accrued pension benefits every year, using:

- the accrued benefit method, prorated on years of service and future salary levels
- a discount rate based on current market, long-term bond interest rates with maturities that match the timing and benefits expected to be paid by the plans
- management's best estimate of the plan's expected investment performance, terminations, retirement ages of employees and life expectancy.

We measure plan assets and accrued benefits on October 31 for the Canadian plan and December 31 for the US plan. An independent actuary performs a valuation of the obligations under the Canadian defined benefit plan at least every three years. An actuarial valuation was performed on January 1, 2006 and the next actuarial valuation will be done on January 1, 2009. The US defined benefit plan had an actuarial valuation on January 1, 2007.

We made payments of $0.1 million to the Canadian defined benefit plan this year, and $1.5 million in 2006. For the US defined benefit plan, we made payments of US $1.2 million prior to settlement of the obligation, and US $1.9 million in 2006.

Reconciliation of funded status of pension asset (liability)

The table below shows the change in plan assets and the funded status of the plans at the end of the year. We record the difference between the amounts expensed and actual funding contributions in the balance sheet as a liability or an asset. We record the pension asset in *Other assets* and the pension liability in *Other liabilities* in the balance sheet.

	Canadian plan		US plan	
	2007	2006	2007	2006
Fair value of plan assets	$ 4,601	$ 5,297	$ –	$ 17,808
Less accrued benefit obligation	3,696	4,516	–	22,532
Funded status	905	781	–	(4,724)
Unamortized transitional asset	–	(58)	–	–
Unamortized net actuarial loss	610	678	–	1,895
Pension asset (liability)	$ 1,515	$ 1,401	$ –	$ (2,829)

Notes to the consolidated financial statements (cont'd)

Actuarial assumptions

We used the following weighted-average significant actuarial assumptions to measure the accrued benefit obligation and the pension expense:

	2007	2006
Expected long-term rate of return on plan assets	7.13%	7.25%
Discount rate to determine the net benefit cost	5.5%	5.5%
Discount rate to determine the accrued benefit obligation	5.75%	5.5%
Rate of compensation increase	3.5%	3.5%
Amortization years for actuarial losses:		
Canadian plan	17	17
US plan	–	26

Management reviews our assumption for expected rate of return on plan assets every year. The assumption is based on expected returns for the various asset classes, weighted by the portfolio allocation. It takes into consideration the future long-term performance of individual asset categories based on expectations for inflation, and real yields on fixed income securities and equities.

Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement, and the anticipated long-term rate of return on pension plan assets.

The discount rate we use to determine the net benefit cost is the same as the discount rate we used to value the liabilities at the beginning of the year.

15. Commitments and contingencies

Çayeli — Purchase of Teck Cominco Madencilik Sanayi A.S.

In 2004, Çayeli purchased all of the shares of Teck Cominco Madencilik Sanayi A.S., now Artvin Bakir Madencilik Isletmeleri A.S. (ABMI), for US $11 million from an associated entity of Teck Cominco Limited. ABMI owns the Cerattepe copper property. Çayeli paid US $2 million at closing and has two optional instalments of US $4.5 million each for the remainder of the purchase price. The payment of the first optional instalment was deferred with the agreement of the seller as local non-governmental organizations made two related applications to cancel the operating licences for the Cerattepe property.

Prior to April 2007, Cerattepe was affected by a local administrative court decision that determined governmental authorities had incorrectly exempted the project operating licences from environmental assessment regulations. In April 2007, the Danistay (Turkish Administrative Supreme Court) directed the lower court to review its decision and re-instated the validity of the licences on procedural grounds. In June, the local court confirmed its agreement with the Danistay's decision. The plaintiff in the prior proceedings re-filed its applications to have the licences cancelled, and has also made applications to stop work on the property and to cancel a lease of the land on which the bottom ropeway terminus will be located. We have applied to join the proceedings as an intervenor and together with the Turkish Ministry of Energy and Natural Resources have filed defences to the applications which we believe are without merit.

The decision of the Danistay did not finally resolve the status of the operating licences but they remain valid pending receipt of any new decision from the local administrative court. Under the agreement with the seller, the first optional installment is due on March 31, 2008, or 30 days after a court decision concerning the recent legal proceedings. If Çayeli elects not to pay this instalment, it must transfer the ABMI shares back to the seller.

Ok Tedi — Community Mine Continuation Agreements

Ok Tedi has a Community Mine Continuation Agreement (CMCA) with each community affected by the operation of the mine. Under these agreements each community has given its consent for Ok Tedi to continue operations, and Ok Tedi and its shareholders are released from any future claims relating to environmental impact.

In 2007, Ok Tedi signed a memorandum of agreement (MOA) with most of the affected communities. Under this MOA, Ok Tedi has increased direct compensation funds to US $18 million per year or four times the previous level. Inmet's share of the payments under the new agreement is US $3 million per year for the next six years, compared to approximately US $1 million per year under the previous agreement. Total payments to be made to these communities over the remaining six years of the mine life, at December 31, 2007, are approximately US $108 million (our proportionate share is US $19 million).

Las Cruces — royalty payment

Las Cruces is responsible for payment of a royalty associated with the sale of its copper production if the average price for copper is higher than US $0.80 per pound in the month the sale is completed. It is calculated as 1.5 percent of copper sold at US $0.80 or more, multiplied by the number of pounds sold.

Freight, insurance and other costs associated with the sale are deducted from the royalty to be paid. When partially processed copper is sold, smelting and refining charges and other similar charges are also deducted in calculating the royalty.

Ok Tedi — lease payments

Ok Tedi is required to make minimum lease payments for property and equipment. The table below shows our share of these payments.

2008	$ 6,300
2009	4,100
2010	3,800
2011	3,600
2012	3,700
Total	$ 21,500

Letters of credit

Inmet Mining

At December 31, 2007, we maintained approximately $15.9 million in letters of credit. These provide financial assurance that we can meet obligations related to the environment and other matters, and have been accrued in *Reclamation and other liabilities*. We have collateralized $14.4 million (note 5) with cash and the rest is unsecured.

Las Cruces

Las Cruces was required to post a restoration bond and a labour bond before mining activity could begin. These two bonds were issued as part of the US $25 million letter of credit facility under Tranche A of its credit facility.

The labour bond is fixed at €5 million for the life of the mine.

The restoration bond is based on the amount of money it would take to restore the site to its post-mining land use at any point in the mine's life. The initial amount of the restoration bond was set at €14.8 million. This takes into consideration the mine's expected life, the corresponding land disturbance and estimated closure costs.

Las Cruces received a subsidy of €5.5 million in 2006 related to the development of the mine. The €5.5 million was secured by issuing the same amount under Tranche B of its credit facility as security for receiving the subsidies until certain operating and capital conditions are met. The €5.5 million is recorded in *Other liabilities*.

Las Cruces has also issued the following letters of credit:

- €3.1 million (€3.1 million in 2006) to secure payments that will ultimately be paid for the use of an electrical substation
- €2.5 million (€2.5 million in 2006) to secure payments to local townships that it will owe once certain licences are granted
- €3.1 million (€1.2 million in 2006) for dewatering and other purposes.

These amounts total $12.5 million and have been collateralized with cash (note 5).

Troilus — termination benefits

In December 2007, a termination benefits plan associated with the future closure of Troilus in 2010 was approved and communicated to employees. Under the plan, benefits are only payable when employees continue to work at Troilus up to the specified termination dates. We estimate that approximately $6 million will be paid on the termination dates, of which $4 million is expected to be paid in 2008.

Notes to the consolidated financial statements (cont'd)

16. Share capital

Our articles of incorporation provide for an unlimited number of preferred shares, subordinate voting participating shares and common shares.

The table below lists the shares that have been issued.

	2007		2006	
	Common shares	Amount	Common shares	Amount
Balance, beginning of year	48,278	$ 337,338	48,097	$ 336,434
Exercise of stock options (note 18)	–	–	175	818
Exercise of deferred share units (note 18)	4	126	6	86
Balance, end of year	48,282	$ 337,464	48,278	$ 337,338

Capital management

Our objectives when managing capital are to:

- ensure we have the financial capacity to support our operations throughout the metals and materials cycles with sufficient capability to manage unforeseen operational or industry developments
- ensure we have the capital and capacity to support our long-term growth strategy
- provide investors with superior returns over time.

Our capital structure reflects the requirements of a company focused on significant growth in a capital intensive industry. We face lengthy development lead times, as well as risks associated with rising capital costs and timing of project completion because of the availability of resources, permits and other factors beyond our control. Our operations are also affected by potentially significant volatility of the metals and materials cycles.

We continually assess the adequacy of our capital structure and make adjustments within the context of our strategy, the base metal mining industry, economic conditions and the risk characteristics of our assets. To adjust or maintain our capital structure, we may adjust the amount of our long-term debt, enter into new credit facilities, adjust the amount of dividends paid to our shareholders or issue new shares.

We have several key policy guidelines for managing our capital structure:

- maintain a liquidity cushion that allows us to address operational and/or industry disruptions or downturns
- make sure we have enough funding to complete our development programs at or around the time we make a definitive decision to move forward with a project
- maintain a conservative level of debt relative to total capital and earnings within the context of our financial forecasts for pricing, costs and production
- outperform the TSX/S&P Diversified Metals and Mining Index over time, thereby providing superior returns to our shareholders.

We monitor our capital using the following measures:

	2007	2006	Target
Gross debt to total equity	18%	10%	< 25%
Interest coverage ratio	38	649	>3
Total debt service ratio	351	362	>1.5

Gross debt to total equity		2007	2006
Long-term debt		$ 234,317	$ 109,080
Add: current portion of long-term debt		12,971	–
Total long-term debt	(A)	$ 247,288	$ 109,080
Total shareholders' equity	(B)	$1,392,493	$1,072,834
Gross debt to total equity	(A)/(B)	18%	10%

Interest coverage ratio		2007	2006
Earnings before interest, taxes, depreciation, amortization (EBITDA):			
Net income		$ 417,609	$ 420,653
Add back:			
Interest expense		1,693	1,619
Income tax expense		140,085	130,017
Depreciation		35,673	33,572
EBITDA	(A)	$ 595,060	$ 585,861
Interest paid on long-term debt	(B)	$ 7,119	$ 903
Interest coverage ratio	(A)/(B)	84	649

Total debt service ratio		2007	2006
EBITDA	(A)	$ 595,060	$ 585,861
Debt service:			
Interest paid on long-term debt		$ 7,119	$ 903
Principal repayments of long-term debt		8,604	–
Total debt service	(B)	$ 15,723	$ 903
Total debt service ratio	(A)/(B)	38	649

17. Contributed surplus

The table below summarizes the changes in contributed surplus:

	Amount
Contributed surplus, January 1 and December 31, 2006	$ 66,999
Share award	(7,232)
Compensation expense	955
Contributed surplus, December 31, 2007	$ 60,722

Inmet Mining has a share award plan (SAP) under which senior management receives a portion of their performance-based compensation in the form of share awards. At the time a share award is made, an equal number of Inmet common shares is purchased on the open market and recorded against contributed surplus. The share awards vest evenly over a period of four years.

18. Stock based compensation

The table below shows the change in the stock based compensation equity during the year.

	2007	2006
Balance, beginning of year	$ 915	$ 962
Exercise of stock options	–	(276)
Exercise of deferred share units	(126)	(86)
Stock based compensation expense	296	315
Balance, end of year	$ 1,085	$ 915

Notes to the consolidated financial statements (cont'd)

The table below shows changes to our treasury and supplementary stock option plans in 2006. These plans were cancelled in 2006.

Treasury plan		Treasury plan		Supplementary plan
	Options (thousands)	Weighted average price	Options (thousands)	Weighted average price
Balance, beginning of year	79	$ 2.95	95	$ 3.25
Options exercised	(79)	$ 2.95	(95)	$ 3.25
Balance, end of year	–	–	–	–

Deferred share unit program for non-employee directors

Inmet Mining has a deferred share unit (DSU) program that allows the board to receive director fees in the form of deferred share units rather than cash. Directors can only redeem their DSUs for Inmet common shares when they retire.

The table below shows the changes to the deferred share units during the year.

Deferred share units		2007		2006
	Units (thousands)	Amount	Units (thousands)	Amount
Balance, beginning of year	75	$ 915	74	$ 669
Granted during the year	4	296	7	332
Redeemed for common shares	(4)	(126)	(6)	(86)
Balance, end of year	75	$ 1,085	75	$ 915

The deferred share units are recorded in equity at an average price of $14.42 in 2007 and $12.12 per unit in 2006.

19. Net income per share

The tables below show our calculation of basic and diluted net income per share.

(thousands)	2007	2006
Income available to common shareholders	$ 417,609	$ 420,653

(thousands)	2007	2006
Weighted average common shares outstanding	48,279	48,212
Plus incremental shares from assumed conversions:		
Deferred share units	75	75
Diluted weighted average common shares outstanding	48,354	48,287

(Canadian dollars per share)	2007	2006
Basic net income per common share	$ 8.65	$ 8.73
Dilutive effect from assumed conversions of deferred share units per common share	(0.01)	(0.02)
Diluted net income per common share	$ 8.64	$ 8.71

We calculate basic net income per share by dividing income available to common shareholders by the weighted average number of shares.

We calculate diluted net income per share by taking into consideration the dilutive effect of deferred share units using the treasury stock method. We adjust the weighted average number of common shares by the number of deferred share units outstanding.

20. Accumulated other comprehensive loss

At December 31, accumulated other comprehensive loss is comprised of:

	2007	2006
Unrealized losses on gold forward sales contracts (net of tax of $2,169)	$ (31,951)	–
Deferred Troilus gold hedges	5,444	–
Unrealized gains on foreign exchange forward contract[1]	17,067	–
Unrealized losses on interest rate swap contract[2]	(4,097)	–
Unrealized gains on investments (net of tax of $2,951)	14,506	–
Currency translation adjustments	(84,705)	(1,803)
	$ (83,736)	$ (1,803)

1. Net of tax of $10,448 and non-controlling interest of $7,315.
2. Net of tax of $2,510 and non-controlling interest of $1,756.

Currency translation adjustments

The table below shows the breakdown of the accumulated currency translated adjustments at December 31.

	2007	2006
Pyhäsalmi (euro functional currency)	$ (1,466)	$ 5,637
Las Cruces (euro functional currency)	(1,919)	8,095
Çayeli (US dollar functional currency)	(65,822)	(9,278)
Ok Tedi (US dollar functional currency)	(15,498)	(6,257)
	$ (84,705)	$ (1,803)

Çayeli, Ok Tedi, Pyhäsalmi and Las Cruces are self-sustaining foreign operations. For these operations, we translate to Canadian dollars using:

- the exchange rates in effect at year-end for assets and liabilities
- the average exchange rates during the year for income and expenses.

The Canadian dollar to US dollar exchange rate was $0.99 at December 31, 2007, and $1.17 at December 31, 2006. The Canadian dollar to euro exchange rate was $1.45 at December 31, 2007, and $1.54 at December 31, 2006.

We defer translation exchange gains and losses and record them in *Other comprehensive income*. When there is a return on our foreign investment through either a dividend, return of equity or a repayment of intercompany debt, we recognize the portion of the deferred foreign exchange gains or losses through income.

We include exchange gains and losses on these amounts in *Investment and other income* (note 21) in the consolidated statements of earnings.

Notes to the consolidated financial statements (cont'd)

21. Investment and other income

	2007	2006
Gain on sale of Izok	$ –	$ 23,905
Gain on sale of Wolfden	11,730	–
Interest income	32,647	14,199
Dividend and royalty income	5,748	5,700
Foreign exchange gain (loss)	(14,519)	3,770
Loss on settlement of pension liability (note 14)	(2,034)	–
Other	2,882	183
	$ 36,454	$ 47,757

Gain on sale of investments

In 2006, we sold our interest in the Izok development property to Wolfden Resources Inc., and received 13.5 million Wolfden common shares in exchange. The shares were valued at $50.6 million based on their closing price on the date the transaction closed, and represented approximately 18 percent of all Wolfden common shares issued and outstanding. We recorded a gain of $23.9 million from the transaction. The value of the Izok property had previously been carried at $26.6 million and recorded in *Property, plant and equipment*.

After we acquired the Wolfden shares, Wolfden completed an arrangement under the Business Corporation Act of Ontario involving a new company, Premier Gold Mines Ltd. Under this arrangement, we received one new Wolfden common share and 0.76 Premier common shares for every Wolfden common share we owned.

After the completion of this arrangement, we held 13.5 million Wolfden common shares, with an initial carrying value of $39.7 million, and 9.5 million Premier shares with an initial carrying value of $10.9 million.

In 2007, we sold our shares of Wolfden to Zinifex Canadian Enterprises Inc. for cash proceeds of $51.4 million or $3.81 per share, and recorded a gain of $11.7 million.

Foreign exchange

For transactions with foreign currencies we use:

- the exchange rates in effect at year-end for monetary assets and liabilities
- the exchange rates in effect on the date of the transaction for non-monetary assets and liabilities
- the exchange rates in effect on the date of the transaction for income and expenses.

Foreign exchange gain(loss) is a result of:

	2007	2006
Translation of non-monetary assets and liabilities, except for cash	$ (3,614)	$ 6,803
Translation of foreign-denominated cash	(5,511)	253
Reduction in our net investments	(5,394)	(3,286)
	$ (14,519)	$ 3,770

22. Interest expense

	2007	2006
Promissory note:		
Interest paid at 6% face value	$ 1,210	$ 1,196
Amortization to fair value	483	423
	$ 1,693	$ 1,619

23. Income taxes

The table below is a reconciliation of income tax expense at Canadian statutory rates, and the amount of pre-tax income and income tax expense reported in the statements of earnings.

	2007	2006
Income before income taxes and non-controlling interest	$ 557,894	$ 550,670
Canadian combined federal and provincial income tax rate	33.8%	35.0%
Expected income taxes	$ 188,512	$ 192,735
Tax effect of:		
Previous years losses used	(11,950)	(9,575)
Foreign tax at different rates	(36,718)	(56,194)
Non taxable income	(9,613)	–
Non-deductible expenses	9,854	3,051
Income tax expense	$ 140,085	$ 130,017

The tables below show our current and future income tax expenses.

2007 For the year ended December 31	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Current income taxes	$ 1,698	$ 45,866	$ 30,117	$ 68,128	$ –	$ 145,809
Future income taxes	(5,000)	579	794	(2,383)	286	(5,724)
Income tax expense (recovery)	$ (3,302)	$ 46,445	$ 30,911	$ 65,745	$ 286	$ 140,085

2006 For the year ended December 31	Corporate	Çayeli (Turkey)	Pyhäsalmi (Finland)	Ok Tedi (Papua New Guinea)	Las Cruces (Spain)	Total
Current income taxes	$ 2,200	$ 37,858	$ 31,063	$ 70,719	$ –	$ 141,840
Future income taxes	–	(12,012)	1,015	(826)	–	(11,823)
Income tax expense	$ 2,200	$ 25,846	$ 32,078	$ 69,893	$ –	$ 130,017

24. Financial instruments

Financial instruments include cash and any contracts that give rise to a financial asset to one party and a financial liability or equity instrument to another party. See the notes listed below for information about financial instruments:

- change in accounting policy — note 1
- cash and short-term investments — note 2
- restricted cash — note 5
- investments — note 7
- long-term debt — note 10.

Notes to the consolidated financial statements (cont'd)

(a) Fair value

The table below shows the carrying values and fair values of our financial instruments at December 31:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and short-term investments	$ 840,823	$ 840,823	$ 640,186	$ 640,186
Restricted cash	38,774	38,774	35,759	35,759
Accounts receivable	131,197	131,197	122,645	122,645
Investments	32,266	32,266	53,002	56,679
Derivative asset (note 24(c))	33,565	33,565	–	17,965
	$ 1,076,625	$1,076,625	$ 851,592	$ 873,234
Financial liabilities				
Accounts payable and accrued liabilities	$ 172,800	$ 172,800	$ 163,106	$ 163,106
Long-term debt	247,288	251,193	109,080	113,743
Derivative liabilities (note 24(c))	43,960	43,960	–	51,494
	$ 464,048	$ 467,953	$ 272,186	$ 328,343

Fair value is the value a financial instrument can be closed out or sold at, in a transaction with a willing and knowledgeable counterparty.

This is usually the instrument's quoted market price. If a quoted market price is not available, we determine fair value using models we have developed that use market-based or independent information.

Cash and short-term investments, accounts receivable, restricted cash and accounts payable and accrued liabilities

These have been designated as held-for-trading and are recorded at fair value. We record any changes in their fair value in net income. We record interest and dividends earned on cash and short-term investments, restricted cash and investments, in *Investment and other income*.

For cash, we calculate fair value using published price quotations in an active market, where there is one. Otherwise fair value represents cost plus accrued interest, which is reasonable given its short-term nature. We record accounts receivable related to metal sales at fair value based on forward market metal prices on the date of the balance sheet. We record accounts payable at cost, which approximates fair value because of its short-term nature.

Most of our sales contracts set prices on a specified future date based on market commodity prices. Variations between the prices recorded on the date of revenue recognition and the actual final price due to changes in market prices result in the existence of an embedded derivative in accounts receivable. We adjust revenue and accounts receivable every period to reflect the change in the value of the contract based on the period end forward price, and then record the change in fair value in revenue once the contract has settled.

At December 31, 2007, we had recorded $125 million in revenues that was waiting final settlement. This included:

- 36 million pounds of copper valued using an average forward rate of US $3.02 per pound
- 16 million pounds of zinc valued using an average forward rate of US $1.07 per pound.

At December 31, 2006, we had recorded $111 million in revenues that was waiting final settlement. This included:

- 28 million pounds of copper valued using an average forward rate of US $2.87 per pound
- 15 million pounds of zinc valued using an average forward rate of US $1.95 per pound.

Investments

Our investments in equity securities are designated as *available-for-sale* and recorded at fair value (note 7).

Long-term debt

All of our long-term debt is designated as *Other liabilities* and are accounted for at amortized cost (note 10). Interest expense on long-term debt is recorded in *Interest expense* in the income statement unless it relates specifically to a development project and is capitalized as deferred development.

We have determined the fair values of the credit facility loans and loans to non-controlling shareholders approximate their carrying value because the loans accrue interest at prevailing market rates. The fair value of the promissory note is calculated by discounting future cash flows under the obligation by a discount factor based on market rates that have been adjusted for our credit quality.

Derivatives and other contracts

Non-financial derivative contracts are designated as *Held-for-trading* and recorded at fair value on the balance sheet. We include mark-to-market adjustments on these instruments in net income, unless the instruments are designated as part of a hedge relationship. We identify and separately account for embedded derivatives in contracts that were entered into or substantively modified on or after January 1, 2003. We use settlement date accounting for all contracts to buy or sell financial assets.

(b) Risks associated with financial instruments

Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.

For cash and short-term investments and accounts receivable, our credit risk is limited to the carrying amount on the balance sheet.

For derivatives, we have a credit risk when its fair value is positive, but assume no credit risk when its fair value is negative.

We manage credit risk by:

- entering into transactions with high credit-quality counterparties
- limiting the amount of exposure to each counterparty where possible
- monitoring the financial condition of counterparties.

The table below shows the credit quality of our financial assets, not including accounts receivable, as at December 31, 2007:

				S&P credit rating
	AA- or higher	A- or higher	B to BBB	Total
Cash and short-term investments	$ 803,402	$ 37,353	$ 68	$ 840,823
Restricted cash	12,494	26,280	–	38,774
Derivatives	25,845	7,720	–	33,565
Balance, end of year	$ 841,741	$ 71,353	$ 68	$ 913,162
Number of counterparties	13	2	2	17
Largest counterparty (percent)	30	83	55	27

Accounts receivable

We only sell the metal we produce to counterparties that are considered credit-worthy and are experienced in the base metals industry. We carry out counterparty credit checks in accordance with our authorization policy, and counterparties that Inmet contracts with that receive a credit rating must be companies with an S&P rating of at least B or its equivalent. Counterparties that do not have a credit rating must have a good credit history as determined by a credit search. We therefore do not expect any losses.

For the year ended December 31, 2007, one customer accounted for 28 percent of total sales and 57 percent of accounts receivable. In 2006, two customers accounted for 30 percent of total sales and 64 percent of accounts receivable at year-end.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet the obligations associated with our financial liabilities. Our objectives and key guidelines for capital management, including our management of long-term debt, are described in note 16. We also have a liquidity policy to help us manage this risk which requires that we:

- invest only in highly liquid instruments with high quality counterparties
- ensure adequate liquidity lines are in place to support our investments
- ensure our investments are aligned with our liquidity requirements
- limit the amount of our investment exposure to each counterparty.

Notes to the consolidated financial statements (cont'd)

The table below shows our liquidity risk profile as at December 31, 2007:

	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due more than 5 years	2007
Cash and short-term investments (see also credit quality table above)	$ 840,823	$ –	$ –	$ –	$ –	$ –	$ 840,823
Restricted cash	1,569	–	–	–	–	37,205	38,774
Credit facility — Tranche A	–	(23,791)	(35,687)	(35,687)	(30,611)	–	(125,776)
Credit facility — Tranche B	(12,971)	(21,685)	–	–	–	–	(34,656)
Promissory note	–	–	–	–	–	(16,267)	(16,267)
Loans from non-controlling shareholder	–	–	–	–	–	(70,589)	(70,589)
	$ 829,421	$ (45,476)	$ (35,687)	$ (35,687)	$ (30,611)	$ (49,651)	$ 632,309

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change. These include changes in metal prices, foreign exchange rates, interest rates and equities.

Metal prices

The most significant factor affecting our earnings is the price of the metals we produce and sell. This has an impact on our sales revenues. Copper, zinc and gold prices are affected by factors beyond our control and mainly by the fundamentals of supply and demand. They are also affected to some extent by exchange rates and demand from the investment community, in particular hedge funds.

Metal prices also have a significant impact on smelter processing charges. We sell concentrate mainly to smelters, which process it into refined metal. Smelter processing charges are made up of the contracted price for treatment and refining charges, and costs to cover metal losses in the smelting process. Most contracts also include a price participation clause where the smelter participates to some extent in the upward and downward movement in metal prices.

Additionally, changes in the price of gold can have a significant effect on *Other comprehensive income* as a result of the impact on the value of our gold forward sales contracts (note 24(c)).

Foreign exchange rates

Certain operations have financial instruments that are denominated in a currency that is not their functional currency creating foreign exchange risk. Troilus has accounts receivable and gold forward sales contracts denominated in US dollars whereas the functional currency of this operation is the Canadian dollar. Pyhäsalmi has accounts receivable denominated in US dollars whereas its functional currency is the euro. Accordingly, changes in the exchange rates between the Canadian dollar and the US dollar and between the US dollar and the euro can have a significant effect on revenues and therefore net income.

In addition, a change in the relative value of the US dollar and the euro can have a significant impact on *Other comprehensive income* because of its effect on the value of Las Cruces' foreign exchange forward contract (note 24(c)).

Interest rates

Interest rate risk is the risk that the value of our assets and liabilities can decrease and increase respectively because of a change in the related interest rates. A change in interest rates has a significant effect on *Other comprehensive income* as a result of its impact on the value of Las Cruces' interest rate swap contract (note 24(c)). We consider interest rate risk related to our cash, short-term investments and restricted cash to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on our interest expense as the majority of our long-term debt is for the development of Las Cruces. Interest costs related to Las Cruces' debt is capitalized to *Property, plant and equipment* (note 6).

The table below summarizes a sensitivity analysis for significant unsettled market risk exposure wih respect to our financial instruments as at December 31, 2007 with all other variables held constant. It shows how net income and other comprehensive income would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

Sensitivity analysis

	A change of:	Would have changed our 2007 after-tax net income by:	Would have changed our 2007 other comprehensive income by:
Metal prices			
Copper (per pound)	US $0.30	$ 8 million[1]	$ –
Zinc (per pound)	US $0.10	$ 1 million[2]	$ –
Gold (per ounce)	US $100	$ 1 million[2]	$ 7 million[3]
Exchange rates[9]			
Canadian dollar per US dollar	C $0.10	$ 1 million[4]	$ 3 million[5]
US dollar per euro	US $0.10	$ 5 million[6]	$ 7 million[7]
Interest rate	0.5 percent	$ –	$ 2 million[8]

1. impact on gross sales awaiting final settlement and related smelter processing charges and the fair value of Ok Tedi's non-hedge copper forward sales contracts.
2. impact on gross sales awaiting final settlement and related smelter processing charges.
3. impact on the fair value of gold forward sales contracts at Troilus and Ok Tedi.
4. impact on US dollar-denominated accounts receivable at Troilus.
5. impact on the fair value of US dollar-denominated gold forward sales contracts at Troilus.
6. impact on US dollar-denominated accounts receivable at Pyhäsalmi.
7. impact on the fair value of Las Cruces' foreign exchange forward contract.
8. impact on the fair value of Las Cruces' interest swap contract.
9. excludes foreign currency risk arising from the translation of our self-sustaining foreign subsidiaries to Canadian dollars because this exposure is limited to our net investment in these operations which is not a financial instrument.

(c) Derivatives and hedging

We use three kinds of derivatives to manage our exposure to market risks:

- *forward sales contracts* to hedge against changes in commodity prices for a portion of our forecasted gold production
- *foreign exchange forward contracts* to hedge against changes in the value of the US dollar relative to the euro
- *interest rate swap contracts* to hedge against the impact of changes to interest rates on our floating rate interest payments.

Under our risk management policy, we seek to mitigate the impact of these market risks to provide certainty for a portion of our revenues, to control costs and to enable us to plan our business with greater certainty. For these particular risks, we believe that derivatives are an effective means of managing these risks. The primary objective of the hedging elements of our derivative positions is that changes in the values of hedged items are offset by changes in the values of derivatives. Most of the derivatives we use are designated in a hedge accounting relationship. Ok Tedi's copper forward sales contracts have been designated as non-hedge derivatives. Our use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors. We do not use derivatives for speculative or trading purposes.

The table below shows the fair value of our derivatives as at December 31, 2007:

	Fair value
Derivative asset:	
Foreign exchange forward contract — Las Cruces	$ 33,565
Derivative liabilities:	
Gold forward sales contracts — Troilus	$ 26,889
Gold forward sales contracts — Ok Tedi	6,603
Copper forward sales contracts — Ok Tedi	2,431
Interest rate swap contract — Las Cruces	8,037
Derivative liabilities	$ 43,960

Notes to the consolidated financial statements (cont'd)

Accounting policy for derivatives

We record derivatives on the balance sheet at fair value. On the date we enter into a derivative that is accounted for under CICA 3855, we designate it as a hedging instrument or a non-hedge derivative. A hedging instrument is designated in either:

- a fair value hedge relationship with a recognized asset or liability, or
- a cash flow hedge relationship with either a forecasted transaction, the variable future cash flows arising from a recognized asset or liability, or a foreign currency risk in an unrecognized firm commitment.

We currently only have hedging instruments as part of cash flow hedge relationships as follows:

- forecasted transactions — Troilus and Ok Tedi gold forward sales contracts
- variable future cash flows arising from a recognized liability — Las Cruces' interest rate swap contract
- foreign currency risk in an unrecognized firm commitment — Las Cruces' foreign exchange forward contract.

We have designated Ok Tedi's copper forward sales contracts as non-hedge derivatives. Changes in the fair value of these contracts are recorded in *Investment and other income*.

At the inception of a hedge, we formally document all relationships between hedging instruments and hedged items, including the related risk-management strategy. This documentation includes linking all hedging instruments to either: specific assets and liabilities, specific forecasted transactions, firm commitments or variable future cash flows. It also includes the method of assessing retrospective and prospective hedge effectiveness. We assess at the end of every quarter whether hedging instruments are expected to be highly effective in offsetting risk in the future. If a hedging instrument is not expected to be highly effective, we stop hedge accounting prospectively. In this case, accumulated gains or losses remain in *Other comprehensive income* until the hedged item affects earnings. We also stop hedge accounting prospectively if:

- a derivative is settled
- it is no longer highly probable that a forecasted transaction will occur
- we de-designate a hedging relationship.

If we conclude that it is probable that a forecasted transaction will not occur in the originally specified time frame, we immediately transfer all gains and losses accumulated in *Other comprehensive income* to earnings. When hedge accounting stops, the derivative is reclassified as a non-hedge derivative prospectively.

If we replace a derivative contract with a new contract, we record a deferred charge that represents the fair value of the new contract at the time we enter into it, and record the same amount in *Other comprehensive income*. We recognize the deferred gain or loss from the original contract on the day it would have been completed based on the substance of the hedged item and risk being hedged.

We classify cash flows from a derivative in the same category as the cash flows from the item it hedges. We record cash flows from non-hedge derivatives as operating cash flows.

We record derivatives on the balance sheet at fair value, and record changes in the fair value of derivatives at the end of every period.

- Fair value hedges: we record the change in the fair value of the derivative and the item it hedges in earnings.
- Cash flow hedges: we record the change in the fair value of the derivative in *Other comprehensive income* until earnings are affected by the item it hedges, except for any hedge ineffectiveness which we immediately record in earnings.
- Non-hedge derivatives: we record the change in the fair value of the derivative in *Investment and other income*.

Gold and copper forward sales contracts

Because of the high cost nature of our Troilus mine, we use hedging instruments such as gold forward sales contracts to manage the market risk associated with changes in the price of gold.

Ok Tedi uses gold and copper forward sales contracts for a small portion of its life-of-mine production to equalize future payments under the negotiated CMCA's (note 15).

The gold contracts have been designated against future gold sales as a cash flow hedge of the variability in market prices on those future sales. The hedged item is the first stated number of ounces of forecasted sales in a future month.

We use the dollar offset method to assess the prospective and retrospective effectiveness of a hedging relationship.

- To assess the effectiveness of a derivative prospectively, we compare the effect of theoretical shifts in forward gold prices on the fair value of the actual derivative and a hypothetical derivative.
- To assess its effectiveness retrospectively, we compare the effect of historical changes in gold prices each period on the fair value of the actual and the hypothetical derivative.

We record the effective portion of a change in a gold contract's fair value in *Other comprehensive income* until forecasted gold sales affect earnings.

The table below shows our gold and copper forward sales commitments at December 31, 2007.

Type of contract	Expiry	Quantity	Price	Recognized fair value at December 31 2007
Copper forward sales				
Ok Tedi	2008	3.2 million lbs	US $2.78 per lb	
	2009	3.2 million lbs	US $2.41 per lb	
		6.4 million lbs	US $2.60 per lb	$(2.4 million)[1]
Gold forward sales				
Troilus	2008	58,200 ounces	US $352 per oz.	$(26.9 million)[2]
Ok Tedi	2008	6,800 ounces	US $372 per oz.	
	2010	3,600 ounces	US $748 per oz.	
	2011	3,600 ounces	US $775 per oz.	
	2012	3,600 ounces	US $803 per oz.	
	2013	1,800 ounces	US $825 per oz.	
		19,400 ounces	US $639 per oz.	$(6.6 million)[3]

1. Non-hedge derivatives valued using an average forward copper price of US $3.04 per pound.
2. Hedge derivatives valued using an average forward gold price of US $859 per ounce.
3. Hedge derivatives valued using an average forward gold price of US $826 per ounce.

In 2008, we expect to reclassify an estimated loss of $30 million at December 31, 2007 from accumulated other comprehensive loss to net income.

Foreign exchange forward contract

Las Cruces will be drawing down its credit facility (note 10) in euros, but the credit facility will ultimately be converted to a US dollar denominated loan with a maximum limit of US $240 million. To fix the amount of euros under the facility, Las Cruces entered into a forward contract to exchange US $215 million for €171.1 million on June 30, 2008.

This forward contract has been designated as a cash flow hedge against changes in the US dollar and euro currency exchange rates until the loan is converted to a US dollar loan on June 30, 2008. The hedged item is identified as the first US $215 million of loan converted.

On the expiry date of the forward contract, any deferred gain or loss from the transaction will be recorded against the carrying amount of the loan.

We assess the effectiveness of this hedge using linear regression. This involves comparing changes in the present value of the expected value of the forward contract with changes in the present value of the anticipated borrowings in US dollars. The effective portion of changes in fair value of the instrument is recorded in *Other comprehensive income*.

At December 31, 2007, we recognized a derivative asset with a fair value of $33.6 million for Las Cruces' foreign exchange forward contract, based on a spot rate of euro to US dollar of 1.46. At December 31, 2006, the fair value of this contract was $18.0 million.

Interest rate swap contract

Beginning in 2008, Las Cruces will be required to make floating rate interest payments on its credit facility. To hedge its exposure to changes in US LIBOR, Las Cruces entered into an interest rate swap contract to fix the interest rate at 5.2 percent plus a loan margin of between 1.75 and 2.0 percent.

This forward contract has been designated as a cash flow hedge of the variability in the forecasted interest payments to be made on Las Cruces' credit facility.

Notes to the consolidated financial statements (cont'd)

The table below shows the notional amounts of debt being hedged by period.

	Notional amount of debt
July 1, 2008 to June 30, 2009	US $179 million
July 1, 2009 to December 31, 2009	US $167 million
January 1, 2010 to June 30, 2010	US $155 million
July 1, 2010 to December 31, 2010	US $137 million
January 1, 2011 to June 30, 2011	US $119 million
July 1, 2011 to December 30, 2011	US $101 million
January 1, 2012 to June 29, 2012	US $83 million
June 30, 2012 to December 31, 2012	US $65 million
January 1, 2013 to June 28, 2013	US $47 million
June 29, 2013 to December 31, 2013	US $29 million
January 1, 2014 to June 30, 2014	US $11 million

At each balance sheet date during the term of the hedge, as long as the hedging relationship remains effective, the interest payable or receivable under the interest rate swap contract will be recognized with a corresponding adjustment to *Interest expense*.

We assess the effectiveness of the hedge using linear regression. This involves comparing changes in the present value of the expected value on the interest rate swap contract with changes in the present value of the anticipated interest rate payments. The effective portion of changes in fair value of the instrument is recorded in *Other comprehensive income*.

At December 31, 2007, we recognized a derivative liability with a fair value of $8.0 million for this interest rate swap contract, based on an average forward US LIBOR interest rate of 4.9 percent. At December 31, 2006, the fair value liability of this contract was $1 million.

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Stock symbol

IMN

Stock exchange listing

Toronto Stock Exchange

Common shares outstanding

(thousands)	2007	2006
Average for the year ended December 31	**48,279**	48,212
As at December 31	**48,282**	48,278

Annual and special meeting of shareholders

Tuesday, April 29, 2008
2:30 pm Eastern Time
The Ontario Heritage Centre
8 Adelaide Street East (Gallery entrance)
Toronto, Ontario

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Sustainability report 2007

Our sustainability report gives our employees, shareholders and people in the communities where we operate a better understanding of how we manage our operational, social and environmental risks, and how our systems and performance are evolving over time. This kind of reporting makes good business sense. It also documents the efforts we are making to building a truly sustainable business.

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